



THE PAST AND FUTURE FUNDING OF CHARTER SCHOOLS IN SOUTH CAROLINA

PREPARED FOR THE EDUCATION
OVERSIGHT COMMITTEE

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EXECUTIVE SUMMARY

Amidst a time of rapidly changing technology, a pandemic, and an ever-increasing need for academics and learning to continue, South Carolina must emerge as a national leader in K12 education, particularly in funding models and learning outcomes. This report provides a comprehensive analysis of performance funding models in various states across the United States and subsequent learning outcomes. The author analyzed comprehensive data and patterns to help South Carolina policymakers discern if charter schools are accomplishing their goals and to create a more equitable funding system for South Carolina schools. A more equitable funding model, based on a performance funding principle, will allow South Carolina's charter schools to thrive financially and for students to thrive academically.

In this report, the author focused on funding model based upon the principle of performance funding. Essentially, performance funding is a budgeting system that allocates funding based on student outcomes, which reflect the goals of its respective state. The author points to six states which use performance funding in charter schools to various degrees and distinguishes the different models of performance funding into 4 types. This state-by-state review provides insight and suggestions for developing a performance funding policy in South Carolina.

When looking at charter school enrollment, particularly in South Carolina, the data shows that virtual charter schools have a much higher enrollment than brick and mortar schools. Despite this, there is a considerable variation in funding and revenue among schools. The data also shows that charter school performance that improves with level of education, but that varies significantly with poverty level. The report then turns to future of South Carolina charter schools. State-by-state comparisons provide a framework for policies that South Carolina can implement. This report concludes with nine considerations for policymakers that encourage accountability, transparency, equity, leadership, and flexibility for the future of South Carolina's charter schools.

ACKNOWLEDGEMENTS

This report would not be possible without the cooperation and support of the leadership teams at the Charter Institute at Erskine and the South Carolina Public Charter School District. Though there are too many to individually name, the author would like to acknowledge the data and support provided by dozens of locally authorized charter schools for this report. The author would like to thank Kimberly Lilliston for applying her talents to constructing enrollment, finance and achievement databases. Kevin McMIndes proved invaluable as a quantitative analyst developing many of the charts used in this report. Matthew Joseph provided helpful policy advice on early drafts of this report and directed to more detailed reports on Texas' new results-based funding formula. The author was fortunate to work with three different EOC leaders during this project, and the report benefited from each of their perspectives. All three generously provided guidance and support on the final draft of this report. Many thanks to Melanie Barton, Dr. Rainey Knight, and Matthew Ferguson. The final report benefited from Claire Miller's excellent editorial and copy-editing services.

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INTRODUCTION

Pursuant to Proviso 1A.59 of the 2019-20 General Appropriation Act, the Education Oversight Committee (EOC) must issue a report to the General Assembly by June 2, 2020 regarding the funding of charter schools. This report was prepared with the support of the EOC and both the Charter Institute at Erskine and the South Carolina Public Charter School District. Additional data and support were provided by the South Carolina Department of Education.

In preparing this report, the authors sought to provide the EOC with a thorough review of enrollment, funding, spending, and achievement patterns across charter schools within South Carolina. Best practices identified during this analysis are highlighted throughout the report along with improvement opportunities. These sections allow policymakers to discern if charter schools are meeting their commitment to improve student learning in South Carolina.

Performance funding for charter schools puts funding where it matters. Texas and Arizona have recently adopted performance funding for brick and mortar public schools. New Hampshire's statewide online charter school is 100 percent performance funded. Each of these pioneering state's performance funding policies make different choices about key policies parameters like the percentage of funding based on performance and whether to allocate bigger amounts to at-risk students who meet state performance standards. South Carolina's charter school legislation also sought to "establish new forms of accountability for schools." A systematic state-by-state review provides a template for developing a performance funding policy in South Carolina. A performance funding state policy repository with copies of each state's legislation is included as an appendix to this report for easy reference.

In addition to this report, the research team prepared three databases including five years of data on enrollment, funding, and student achievement to be provided to the report's sponsors that have been submitted separately from this report. The 232 annual financial reports collected from charter schools for this study were submitted to the EOC, with the intention of hosting them on a SCDE website for improved access and visibility.

This report is organized as follows. The first three sections are retrospective in nature looking at the results of existing policies and procedures. Section one reports on charter school enrollment by grade configuration and authorizer type. Section two presents financial data and analysis results. Section three provides information about charter school student achievement and graduation rates relative to statewide performance and school spending levels. The second half of the report looks to the future of funding charter schools in South Carolina. Section four presents a policy analysis of state performance funding policies and a literature review of research on performance funding in K12 schools in the United States. Section five concludes the paper with considerations for policy makers.

SECTION I

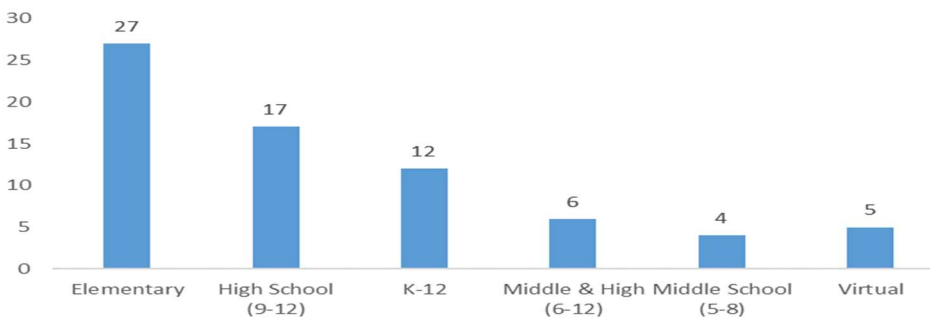
CHARTER SCHOOL ENROLLMENT PATTERNS

This report includes data from a sample of South Carolina’s Charter Schools over a five-year period (see Table 1).¹ In 2015, 56 charter schools are included. That figure rose by 27 percent to 71 schools by 2019. Elementary schools represent nearly 40 percent of our sample. Configured primarily in a K-8 grade arrangement, elementary schools are the most common charter school in South Carolina. Middle-High school configured schools (grades 6-12) and traditional middle schools (grades 5-8) had the fastest growth rate in the sample, both types of schools doubled in number during the five-year period observed in this study. Virtual charter school and K-12 charter school numbers remained constant over this time frame. Figure 1 presents the current distribution of charter schools by grade configuration.

TABLE 1: CHARTER SCHOOL SAMPLE BY SCHOOL YEAR

Number of Charter Schools by School Year					
Grade Category	2015	2016	2017	2018	2019
Elementary	19	19	20	22	27
High School (9-12)	15	15	16	16	17
K-12	12	12	12	12	12
Middle & High (6-12)	3	5	5	5	6
Middle School (5-8)	2	2	3	3	4
Virtual	5	5	5	5	5
Total	56	58	61	63	71

FIGURE 1: SOUTH CAROLINA CHARTER SCHOOLS IN 2018-19, BY GRADE CONFIGURATION



¹Not every charter school in South Carolina is included in this study. Some were dropped from the study all together because they have a special mission to only serve children with special needs, while others only serve pre-K children. In other cases, schools are missing because of missing data on a specific variable in a given year.

Table 2 presents the number of charter schools by school year and authorizer type. It is organized into three authorizer types: (1) Local authorized brick and mortar charter schools; (2) State authorized brick-and-mortar charter schools; and (3) State authorized virtual charter schools. The purpose of this chart is to distinguish charter schools from one another based on differences in the way they are funded. Those funding differences are discussed in detail in section two of this report. More than half of the sample (55%) are state authorized brick-and-mortar schools, followed by locally authorized brick-and-mortar charter schools (38%) and state authorized virtual schools (7%). Note that percentages here are based on school counts, not enrollment. Virtual charters either serve grades K12 or 9-12, whereas brick-and-mortars have a variety of grade configurations regardless of the geographical boundaries of their authorizer.

TABLE 2: CHARTER SCHOOL COUNT BY AUTHORIZER TYPE, GRADE CONFIGURATION, AND FISCAL YEAR

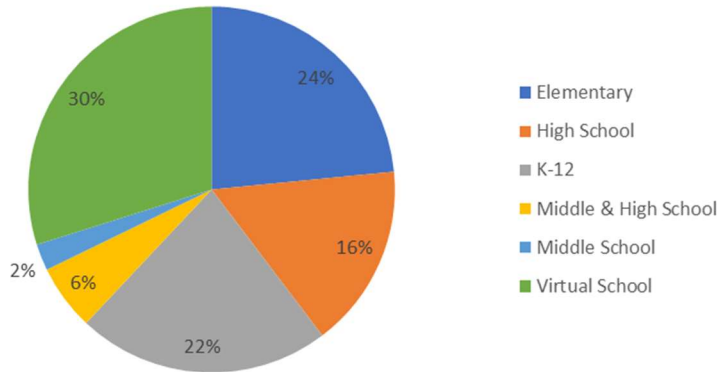
Number of Charter Schools by School Year					
Authorizer & Grade Categories	2015	2016	2017	2018	2019
Local authorized brick and mortar charter	26	27	27	27	27
Elementary	15	15	15	15	15
High School (9-12)	8	8	8	8	8
K-12	1	1	1	1	1
Middle & High (6-12)	1	2	2	2	2
Middle School (5-8)	1	1	1	1	1
State authorized brick and mortar charter	25	26	29	31	39
Elementary	4	4	5	7	12
High School (9-12)	7	7	8	8	9
K-12	11	11	11	11	11
Middle & High (6-12)	2	3	3	3	4
Middle School (5-8)	1	1	2	2	3
State authorized virtual	5	5	5	5	5
High School (9-12)	2	2	2	2	2
K-12	3	3	3	3	3
Total	56	58	61	63	71

South Carolina counts students for funding purposes on the 45th and 135th day of the school year for all schools, whether they are charter- or district-operated, virtual, or brick-and mortar. South Carolina Schools, including Charter Schools, report enrollment by average daily membership (ADM) to the state. This measure counts each student who was enrolled in school on the count days. Charter schools also report membership by the number of students who meet one of 17 weighted and add on categories on count days. Students who meet one or more of these special need requirements are allocated additional funding by the state to offset the higher cost of their education.²

² School districts in South Carolina report their enrollment in the same way that charter schools do.

Virtual charter schools only represent 7 percent of our sample of schools, but they serve nearly 1 in 3 charter school students in South Carolina according to enrollment data presented in figure 2. Half of all charter school students in South Carolina attend an Elementary or K-12 configured school. The remainder of charter school students attend either a high school (16%), a combined middle-high school (6%), or a middle school (2%).

FIGURE 2: CHARTER SCHOOL ADM FOR 2018-19, BY GRADE CONFIGURATION



The figure above presents raw enrollment data that was not weighted by student need. Figure 3 presents the distribution of weighted ADM by grade configuration. The inclusion of weights makes for only minor changes in the proportion of students served. For instance, virtual charter schools increased the proportion of students served by one percent (from 30% to 31%). Elementary Charter Schools, on the other hand, saw a decrease the proportion of students they served by two percent (24% to 22%). These small increases in the proportion of weighted students served by virtual schools show that virtual charter schools serve more students with weighted and add on services than Elementary Schools.

FIGURE 3: CHARTER SCHOOL WEIGHTED ADM FOR 2018-19, BY GRADE CONFIGURATION

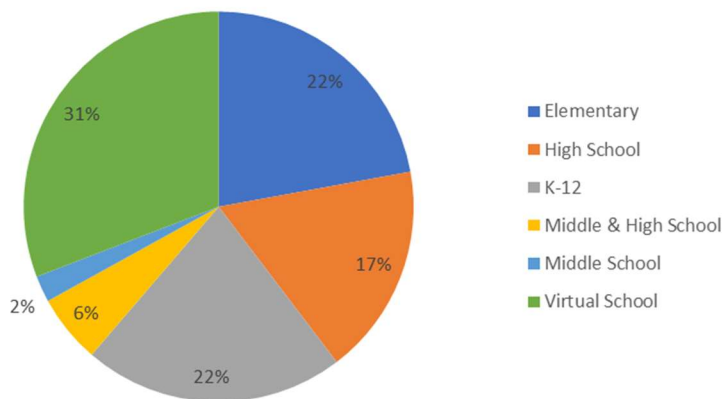


Figure 4 presents 45 day and 135-day ADM by school for 2018-19. Except for a few schools, the student counts are quite similar on both count days. The 45-day count to 135-day ADM correlation for FY2019 is

99.95 percent. Both SC Connections Academy and SC Virtual Charter School, for instance, experienced enrollment declines in the reported year between counts. Cyber Academy, on the other hand, reported more students in their 135-day count than their 45-day count. Figure 5 presents weighted ADM for 2018-19, by school. The 45-day count to 135-day weighted ADM correlation for FY2019 is 99.92 percent.

FIGURE 4: 45-DAY AND 135-DAY ADM FOR 2018-19, BY SCHOOL

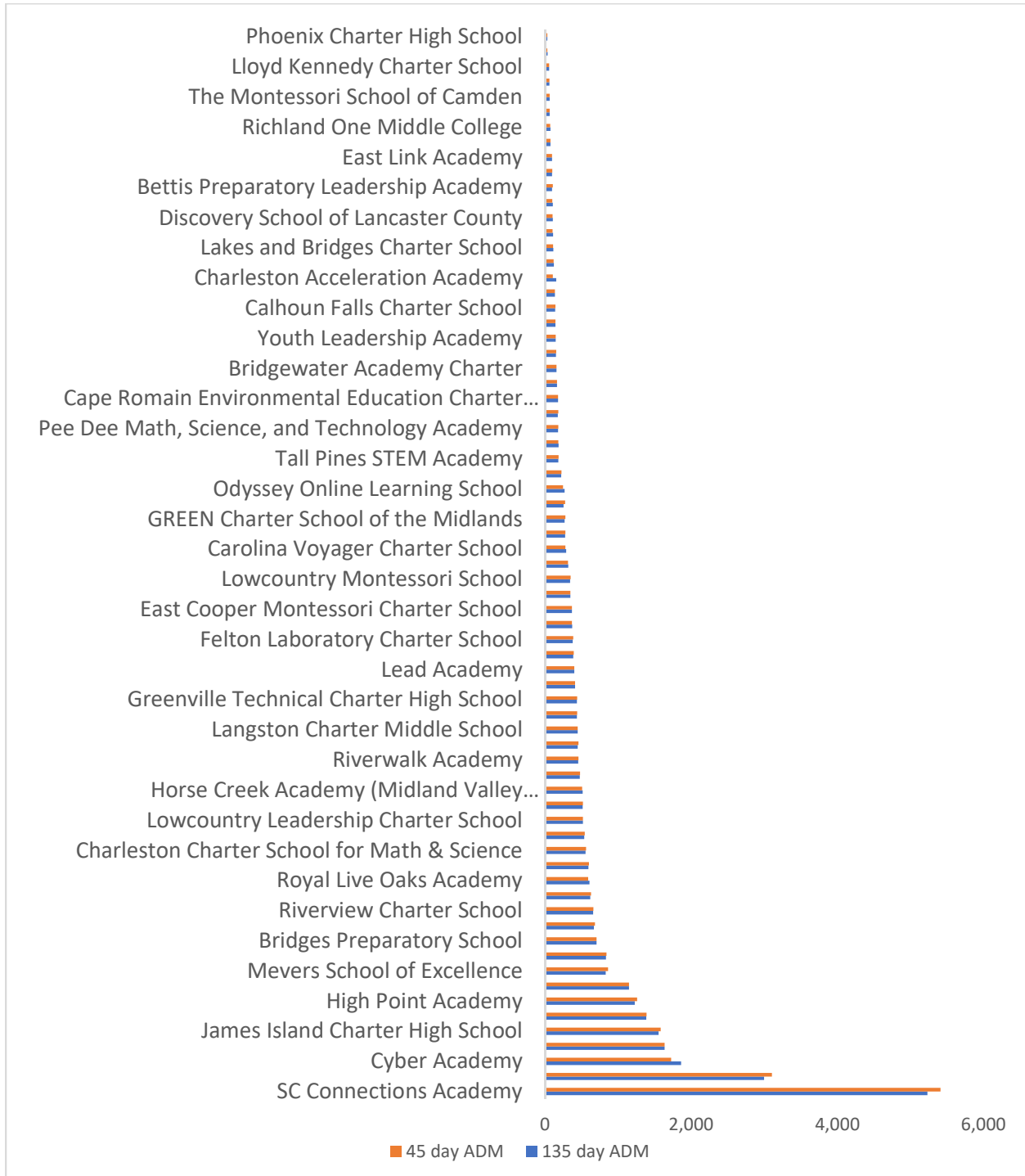
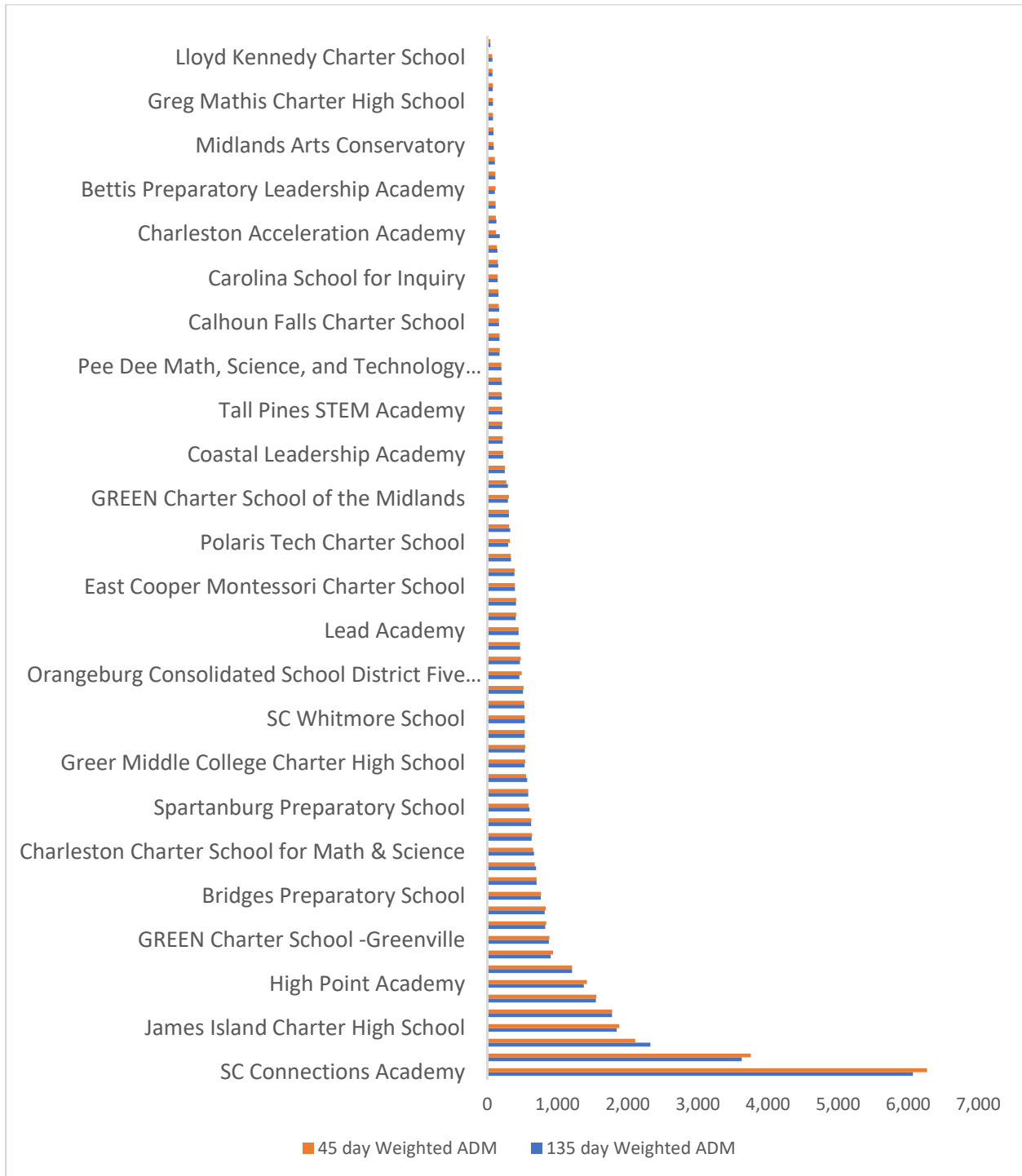


FIGURE 5: 45-DAY AND 135-DAY WEIGHTED ADM FOR 2018-19, BY SCHOOL



Charter schools were asked to submit their attendance taking policy for review and analysis. Some charter schools had basic policies that reiterated components of state rules, like the number of days a student must be present each academic year. One finding from this analysis was that 7 out of 35 schools reported that they do not have an attendance policy at the school, and instead follow state guidelines. In contrast

to the schools that lacked an attendance policy, a handful of schools gave serious consideration to developing early intervention strategies for absent and tardy students. These schools developed clearly articulated escalation protocols that are likely to improve student attendance and learning outcomes. They could serve as exemplars for district and charter schools alike.

Two online charter schools shared their attendance policy with us. The first school's attendance policy makes no mention of the state mandated number of instructional days. Instead, requirements focus on 100% of minimum work assignments completed each month or 75% attendance verification. There is an attendance sheet maintained by the Content Coach that students must sign into or they will be counted as absent. Escalation procedure in place for truancy results in student expulsion if 10 appointments/classes/assessments are missed. The second virtual school's attendance policy relies on learning coaches to enter the number of hours students spent learning each day.

In South Carolina, online students are required to participate in "real time" instruction, including webinars, phone calls, face-to-face meetings, and special activities. But the attendance taking policies collected for this study do not indicate how attendance data in "real time" instructional activities is collected by school staff to demonstrate that this requirement has been met. This school-level and potentially state level gap in collection and reporting protocol represents a risk that could negatively impact student learning.

Figure 6 presents the median ADM for the 45-day count. The blue columns represent unweighted ADM and the orange columns report weighted ADM. The figure shows that when weighted student counts are used, charter schools have larger enrollments compared with unweighted student counts. The figure also makes clear that virtual charter schools are much larger than brick and mortar charter schools. For instance, the median virtual charter school is more than three times larger than the median K-12 configured Charter School and more than 11 times larger than the median charter high school. Charter High School median weighted ADM is 46 percent larger than median unweighted ADM, the largest increase among the six grade configuration groups reported in Figure 6. Virtual charter school median weighted ADM is 22 percent larger than median unweighted ADM making it the second largest increase in weighted enrollment. With a 10 percent increase in enrollment when measured by weighted ADM, Elementary Charter Schools appear to serve the fewest number of students with weighted and add on services.³

³ A 135-day count of this same figure was prepared but not presented here, as there was little change in the median values across grade configuration.

FIGURE 6: MEDIAN 45-DAY COUNT AVERAGE DAILY MEMBERSHIP FOR 2018-19, BY GRADE CONFIGURATION

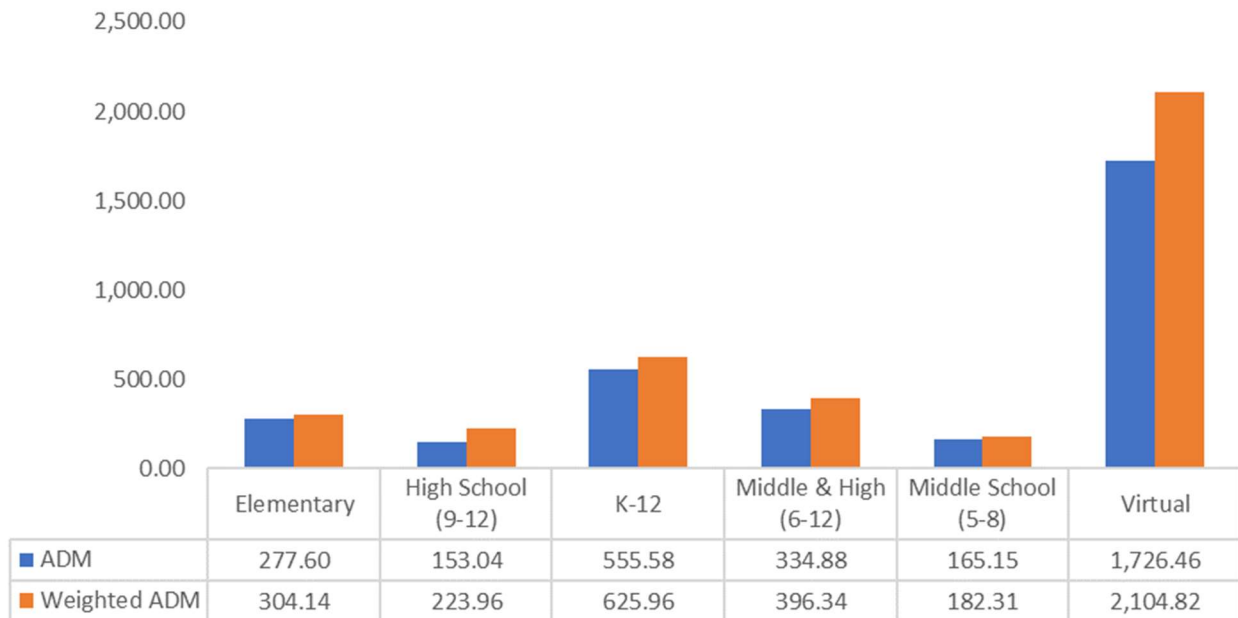


Figure 7 presents the Charter School with the fewest students for each grade configuration. Consistent with the median values presented above, the smallest virtual charter school is much larger than the smallest brick and mortar school.

FIGURE 7: SMALLEST OBSERVED ADM IN 2018-19, BY GRADE CONFIGURATION

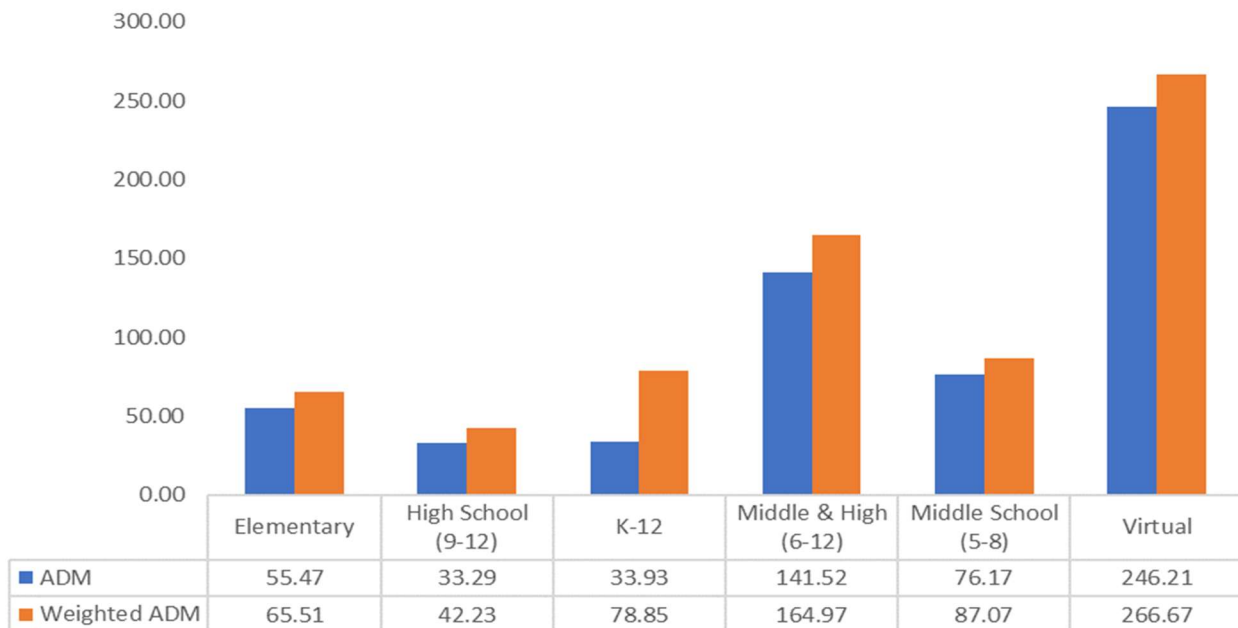
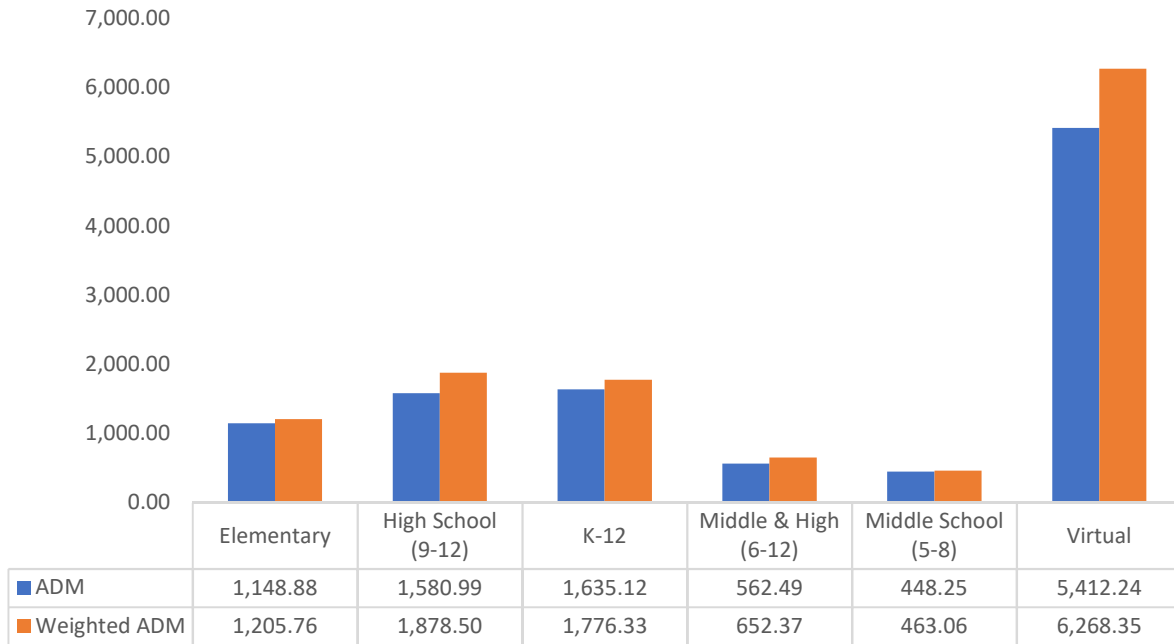


Figure 8 presents the charter school with the most students for each grade configuration. If the unweighted ADM at each of the five largest brick and mortar charter schools is added up, the sum would be the same number of students served by the largest virtual charter school. This data shows substantial variation within the brick and mortar charter schools. The smallest brick-and-mortar school serving students in grades K-12 serves just 34 unweighted students per day, whereas the largest charter school serving students in grades K-12 served 16 times more students - 556 students in total.

FIGURE 8: LARGEST OBSERVED ADM IN 2018-19, BY GRADE CONFIGURATION



SECTION II

FINANCE DATA & ANALYSIS

The Education Finance Act of 1977 (EFA) is the single largest source of K12 funding in South Carolina. The EFA appropriation for FY2019 was \$1.822 billion. The state funding formula for the EFA works as follows for school districts.

Weighted Pupil Units (WPU) are calculated by taking the Average Daily Membership (ADM) for each student classification multiplied by the classification weight. Revenue codes 3311 for Kindergarten through 3331 for Autism are part of the EFA and are referred to as weights. Revenue codes 3332 for High Achieving through 3353 for Dual Enrollment are not part of the EFA and are referred to as add on. Table 3 presents the most recently published student classifications and associated weights. The state sets a Base Student Cost (BSC) each year (BSC in FY2019 was \$2,485). The BSC is then multiplied by the WPU.

TABLE 3: STUDENT CLASSIFICATION CATEGORIES AND WEIGHTS, FY2019

Revenue Codes	Program Code	Classification	Weighting
3311	K	Kindergarten	1.00
3312	P	Primary	1.00
3313	EL	Elementary	1.00
3314	HS	High School	1.00
3315	TM	Trainable Mentally Handicapped	2.04
3316	SP	Speech Handicapped	1.90
3317	HO	Homebound	1.00
3321	EH	Emotionally Handicapped	2.04
3322	EM	Educable Mentally Handicapped	1.74
3323	LD	Learning Disabilities	1.74
3324	HH	Hearing Handicapped	2.57
3325	VH	Visually Handicapped	2.57
3326	OH	Orthopedically Handicapped	2.04
3327	V	Vocational (Grades 9-12)	1.29
3331	AU	Autism	2.57
3332	HIAC	High Achieving	0.15
3334	LEP	Limited English Proficiency	0.20
3351	ACAS	Academic Assistance	0.15
3352	PIP	Pupils in Poverty	0.20
3353	DUAL	Dual Credit Enrollment	0.15

The state funding formula for State authorized charter schools is slightly different from the formula for locally authorized charter schools. Proviso 1A.50 (SDE-EIA: South Carolina Public Charter School Funding) states that funds from revenue code 3583 are to be allocated as follows:

“Pupils enrolled in virtual charter schools sponsored by the South Carolina Public Charter School District or a registered Institution of Higher Education shall receive \$1,900 per weighted pupil and pupils enrolled in brick and mortar charter schools sponsored by the South Carolina Public Charter School District or a registered Institution of Higher Education shall receive \$3,600 per weighted pupil.” The intention of this policy is to use state funds to supplement state authorized charter schools for the loss of access to local revenue.

For locally authorized charter schools, the host district’s BSC is calculated by taking audited General Fund revenues from the prior year and dividing them by the host district’s WPU. The lagged enrollment and revenue data are adjusted for inflation, if allowed, each year. The result is then increased, or held at zero percent, according to an inflation factor. Locally authorized charter school funding is determined by multiplying the host district’s BSC multiplied by the charter schools WPU.

To determine how equitably Charter School funding is distributed across Charter Schools, it is necessary to know how much revenue each school received and how much revenue each school would have received if all students were funded at the same rate, controlling for differences in the number of students with weighted and add on services. Actual revenue was drawn from audited Annual Financial Statements obtained from each Charter School. Average weighted funding was calculated by taking the sum of all charter school revenue by authorizer type for the year divided by the sum of WPU for all charter schools in our sample.⁴ The result is three different average per student funding amounts: one for locally authorized charter school students who attend a brick-and-mortar school, the second for state authorized charter school students who attend a brick-and-mortar school, and the third for students who attend a state authorized virtual school. Three different average funding amounts are necessary because the state funds charter school students attending one of these three categories of schools differently by design.

With this data in place, a weighted funding index is calculated for each school by dividing actual revenue received by average funding, and later the same procedure is used for expenses. When the weighted funding index equals one, then the school is funded equitably.⁵ When the weighted funding index is greater than (less than) one, then the school is receiving more (less) revenue than expected based on the cost of educating the students they serve.⁶

The authors submitted data requests for audited financial statements to the charter schools for the period FY2015 – FY2019. Table 4 summarizes the results of these efforts. For FY2015, 61 percent of the

⁴ According to South Carolina’s School Funding Manual, final funding amounts are determined using 135th day count.

⁵ Technically this meets the vertical equity standard because it is based on weighted enrollment. Categorical aid was not broken out in the audited financial data and therefore a separate horizontal equity analysis was not feasible.

⁶ This report uses the cost of educating students by classification to state standard reported in the Education Funding Manual. The author recognizes that these cost estimates were developed several years ago and that there is much debate in the academic literature about the best method of deriving cost estimates. If new classification categories and weights are used to revise the funding formula in the future, the equity measures used in this report will still be a valid way of assessing funding equity across charter schools.

requested reports were received.⁷ For the most recent year, 100 percent of charter schools submitted annual financial reports.

TABLE 4: COLLECTION STATISTICS FOR CHARTER SCHOOL ANNUAL FINANCIAL REPORTS

Annual Financial Reports	FY2015	FY2016	FY2017	FY2018	FY2019	Total
Schools in Sample Year	56	58	61	63	71	309
Annual Financial Reports Received in Sample Year	34	39	38	55	71	237
Missing Annual Financial Reports in Sample Year	22	19	23	8	0	72
Percent Collected in Sample Year	61%	67%	62%	87%	100%	77%

Selecting a commonly reported set of revenues and expenses from the annual financial report (AFR) proved difficult. An experimental database was constructed for FY2019 with much more detail, including revenue by source, use (restricted or unrestricted), and expense by function. But that experimental database had too many missing observations to use. There were many reasons for missing data. First, the reports are prepared by independent local accountants across the state to the same standards, but each school and accountancy makes choices about how much detail to present or not present around categorical aid programs, revenue sources, and expense types.⁸ For instance, some AFR's provide function level detail for general revenue and special revenue expenses while others combine these two funds into a single statement.⁹ Second, some districts treat charter schools as fiscally dependent entities and include their finances with the district's AFR. Other districts treat charter schools as fiscally independent entities and direct AFR data requests to the charter schools. These differences are exacerbated by charter school AFRs prepared by schools that operate in multiple states because they appear to follow different reporting conventions.

The Government-Wide Financial Statements were found to be the most consistent across schools and overtime. Program revenue and expense information was drawn from the Statement of Activities, which provides a breakdown of revenue and expense by two primary functions, instruction and support services. The advantages of this accrual-based data source are the inclusion of all current and deferred assets and liabilities, and all revenues and expenses for the year, unlike modified accrual-based statements that only count revenue when funds are received. This approach ensures fiscal comparability across schools in the

⁷ Some districts with multiple charter schools submitted district level annual financial reports in response to our requests. Those reports treat charters as component units and lack the financial detail required.

⁸ The Statement of Functional Expenses was not found in CAFR's reviewed for this project. Sample audits stated compliance with Government Auditing Standards. The Statement of Functional Expenses provides detailed information by functional class in a matrix format. It is required by the Financial Accounting Standards Board for all voluntary health and welfare organizations. This statement breaks out the information also found in the Statement of Activities in greater detail. See Steven A Finkler. Financial Management for Public, Health and Not-for-Profit Organizations (Prentice-Hall, Inc., Upper Saddle River, NJ, 2001), p. 563.

⁹ A few schools choose to record their state aid under General Revenues / Intergovernmental Revenue instead of program revenues. In those situations, this report combines Intergovernmental Revenue with Operating Grants and Contributions to remain consistent with the approach used by a majority of the charter school in our sample.

sample as each charter school’s revenue and expenses were drawn from the same audited financial statement.

Figures 9 and 10 present total school revenue and expenses by grade configuration. The column chart presents the data by ADM and weighted ADM. Revenue and spending levels per student naturally decline when student weights are factored in. Middle and virtual schools are consistently receiving less revenue and spending less per student than brick and mortar schools with other grade configurations. The virtual school revenue deficit makes sense in light of the funding formula that allocates \$1,700 less to students who attend virtual charter schools. The middle school deficit is more difficult to explain because the four middle schools in the sample are all brick-and-mortar (3 are state authorized, 1 is locally authorized).

FIGURE 9: TOTAL SCHOOL REVENUE PER STUDENT (UNWEIGHTED AND WEIGHTED)

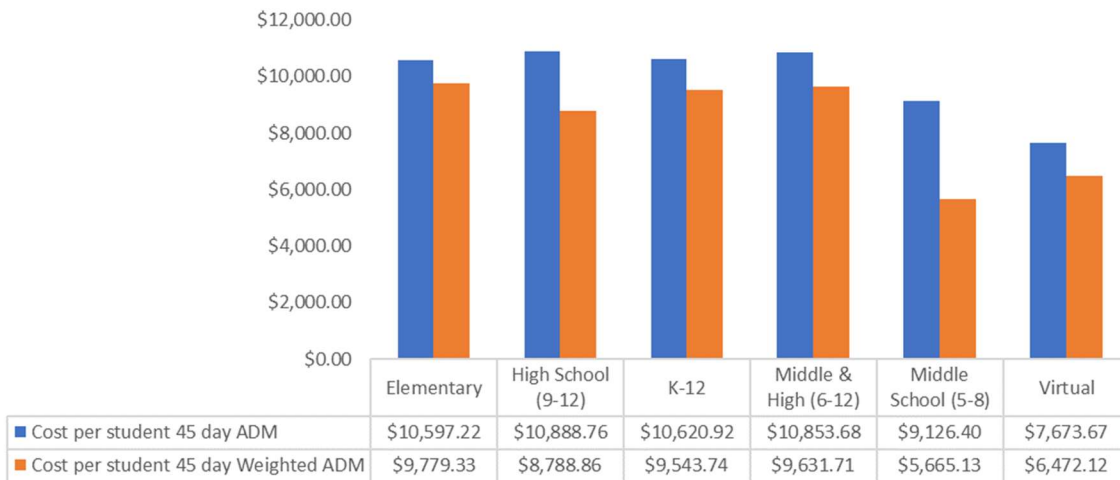
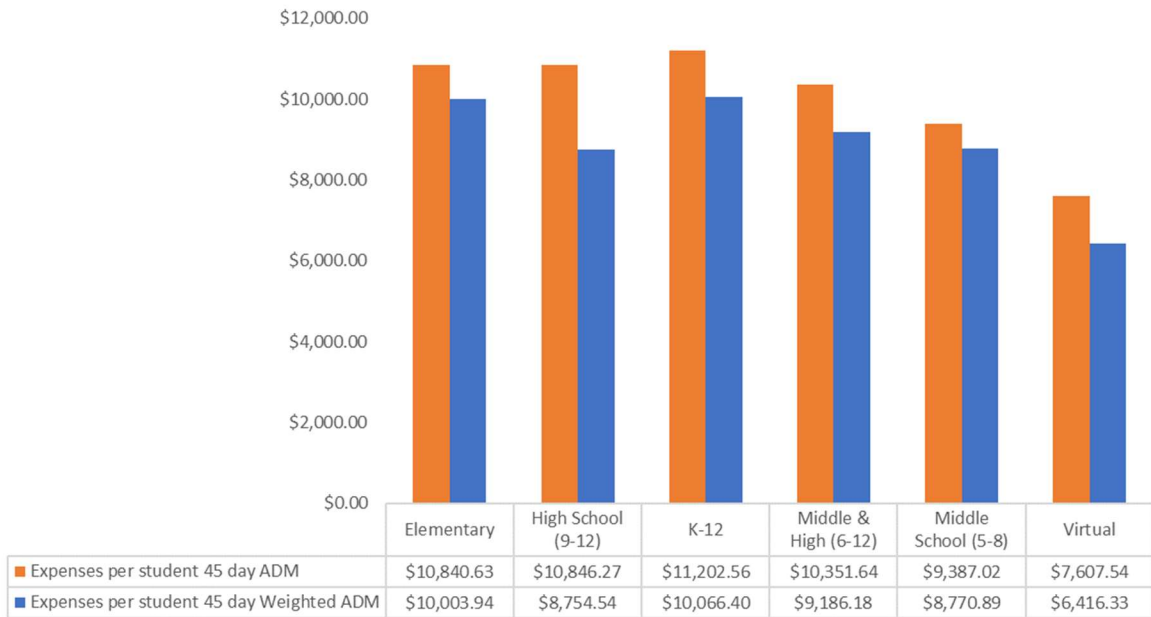


FIGURE 10: TOTAL SCHOOL EXPENSES PER STUDENT (UNWEIGHTED AND WEIGHTED)



In the following two figures 11 and 12, revenues and expenses are reported by authorizer type. The first two columns include brick-and-mortar charters that are locally authorized with unweighted revenue per student in orange and weighted revenue per student in blue. Brick-and-mortar revenue and expenses per student are very similar to one another, while virtual charter school revenue and expenses are about 30 percent lower than these other two groups.

FIGURE 11: REVENUE PER STUDENT BY AUTHORIZER TYPE

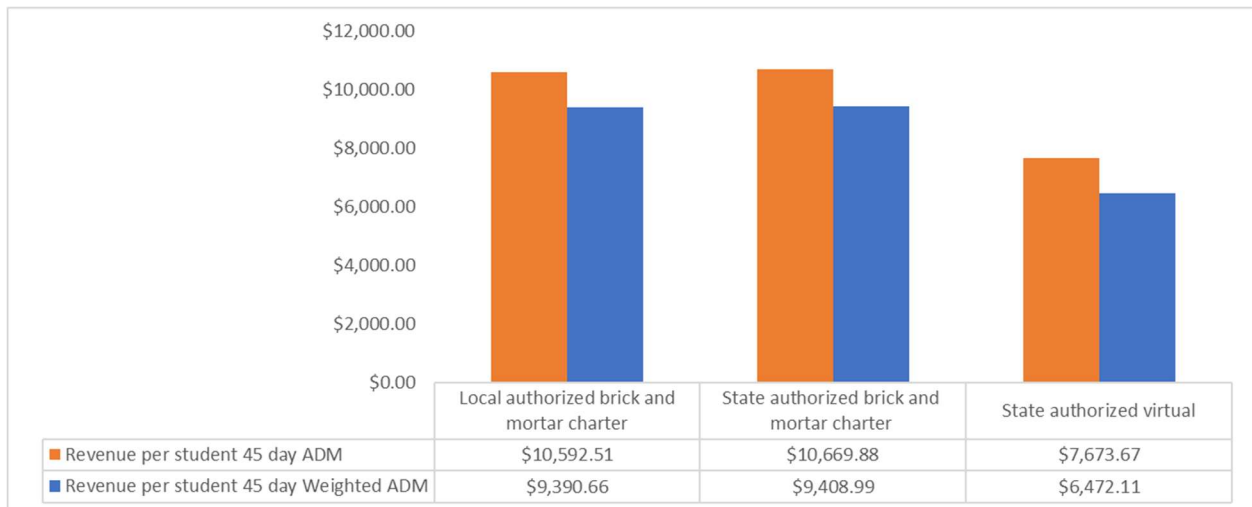
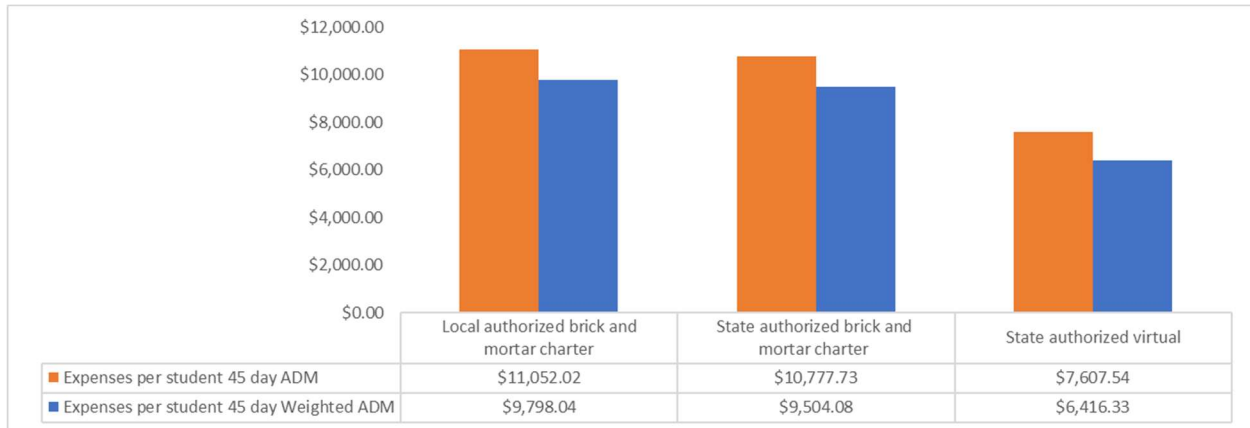


FIGURE 12: EXPENSES PER STUDENT BY AUTHORIZER TYPE



Tables 7 and 8 present equity measures for charter schools in South Carolina. The results are reported for revenue and expenses. Following the pattern established above, results are presented by grade configuration and then for the entire charter school sample. The coefficient of variation is calculated by dividing the standard deviation of each charter school’s revenue per weighted student by the statewide average spending per weighted charter school student.¹⁰ For example, the standard deviation of weighted per student revenue for all charter schools is \$1,746 and the average spending per charter school student is \$8,553. For FY2019, the Coefficient of Variation (CV) for all charter schools in the sample is 20.4%.

The results indicate a considerable amount of variation in the amount of revenue and spending per student in brick-and-mortar charters schools, regardless of authorizer. Less than half of brick-and-mortar charter schools weighted revenue index falls within 10 percent of the state weighted average. The results are worse for spending, where about one-third of weighted revenue index values fall within this range. While revenues and spending levels have been shown to be about 30 percent less than brick-and-mortar charters, there is much more equity in how revenues are distributed across virtual charter schools with 100 percent of the five schools falling within 10 percent of the state weighted average. Tables 5 and 6 include an equity analysis of the entire sample. This data requires careful interpretation because it relies on the average revenue per student for all charter schools combined and it has been established that charter schools are funded differently by authorizer type.

¹⁰ The CV is calculated independently for each grade-based group of schools with their own standard deviation and mean.

TABLE 5: REVENUE-BASED EQUITY MEASURES FOR FY2019 BY AUTHORIZER TYPE

	N	Coefficient of Variation	Maximum Weighted Index	Minimum Weighted Index	% of Schools within +/- 10% of State-Weighted Average	% of Schools within +/- 20% of State-Weighted Average
Charter School Revenue						
Local authorized brick and mortar charter	27	17.1%	1.26	0.73	41%	81%
State authorized brick and mortar charter	39	16.6%	1.58	0.69	44%	77%
State authorized virtual	5	3.2%	1.05	0.96	100%	100%
All Charters in Sample	71	20.4%	1.58	0.69	46%	80%

TABLE 6: EXPENSE-BASED EQUITY MEASURES FOR FY2019 BY AUTHORIZER TYPE

	N	Coefficient of Variation	Maximum Weighted Index	Minimum Weighted Index	% of Schools within +/- 10% of State-Weighted Average	% of Schools within +/- 20% of State-Weighted Average
Charter School Expenses						
Local authorized brick and mortar charter	27	23.7%	1.71	0.69	33%	63%
State authorized brick and mortar charter	39	23.6%	1.68	0.65	36%	67%
State authorized virtual	5	11.6%	1.13	0.77	60%	80%
All Charters in Sample	71	28.1%	1.71	0.65	37%	66%

Figures 13 and 14 present the data from this table in a box and whisker plot and categorizes results by grade configuration and authorizer type. The box includes schools from the 25th through the 75th percentile of the distribution and the line through the middle represents the median value of the distribution. The whiskers report schools below the 25th percentile and above the 75th percentile that are within one and a half times the size of the box (inner quartile range). Points beyond the end of the whiskers are consider outlier points. The plots show how much dispersion there is in the distribution of the weighted revenue index across brick-and-mortar charter schools serving the same grades and authorized in the same way. There is much less dispersion in the distribution of the weighted revenue and expense index for virtual charter schools, and many fewer schools to examine.

FIGURE 13: DISPERSION OF WEIGHTED REVENUE INDEX BY AUTHORIZER TYPE AND GRADE CATEGORY

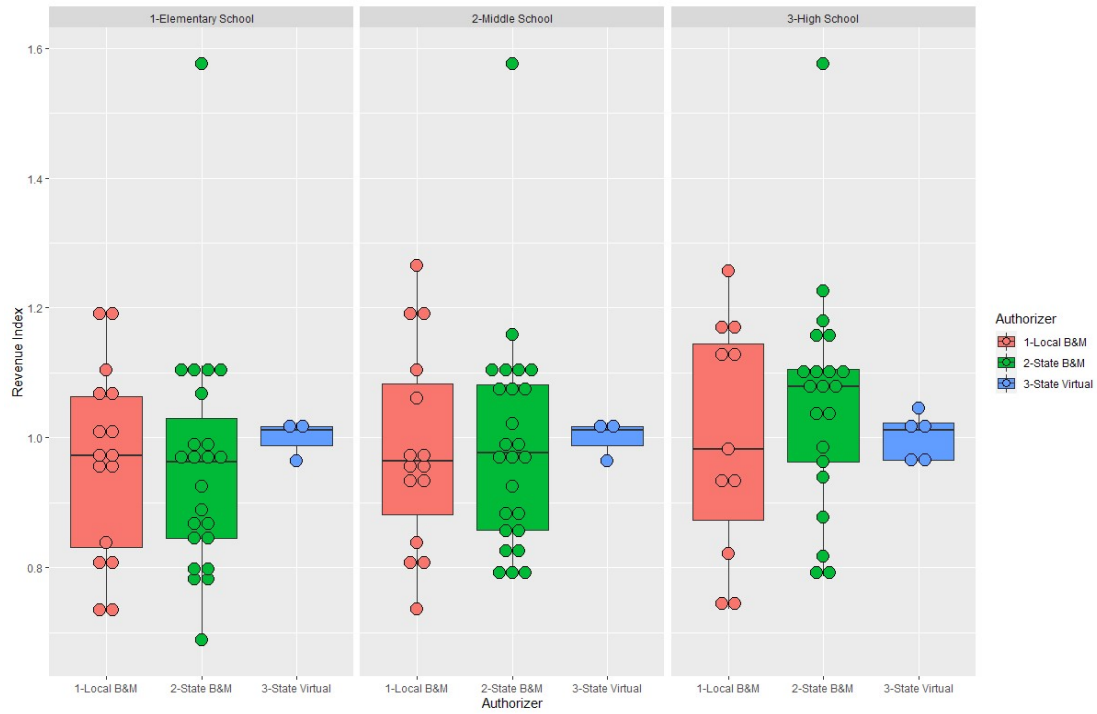
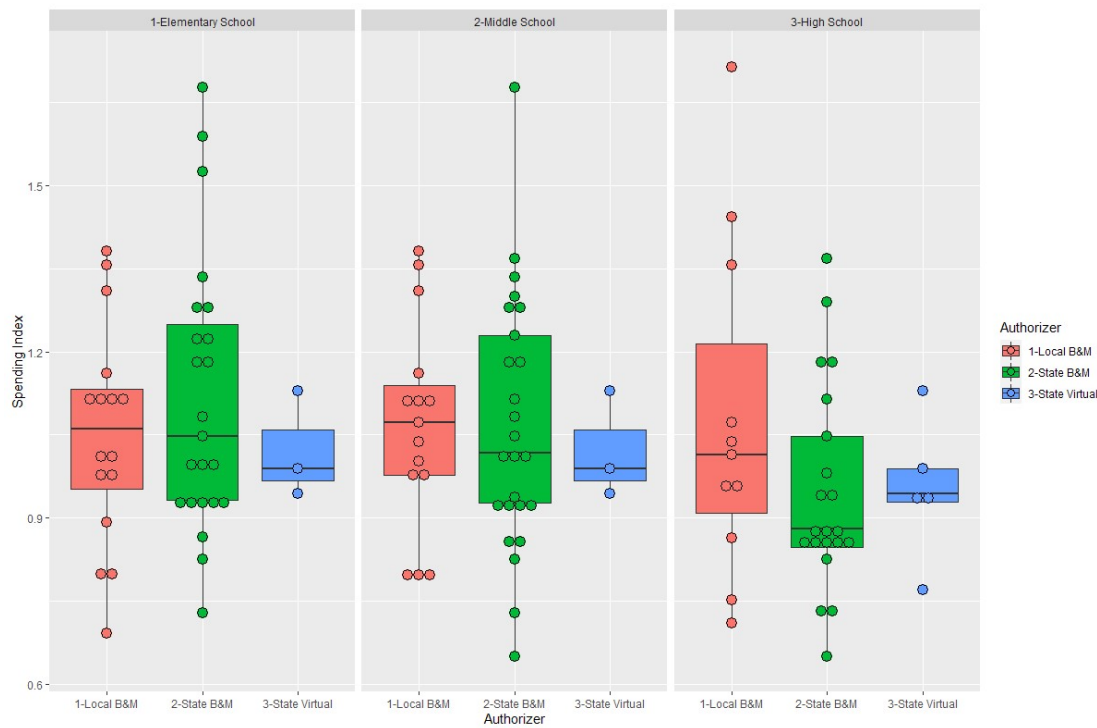


FIGURE 14: DISPERSION OF WEIGHTED REVENUE INDEX BY AUTHORIZER TYPE AND GRADE CATEGORY



SECTION III

ACHIEVEMENT DATA AND ANALYSIS

South Carolina managed or funded 11 statewide assessments in FY2019, according to the data presented in table 9 and provided to the author by SCDE. Some of these assessments are focused on early learners, such as Teaching Strategy GOLD, and are not appropriate to use for a K12 analysis. While other assessments, like the National Assessment of Education Progress (NAEP), use a student sampling strategy that make interpretation of results valid for the state but not for individual schools.

This analysis focuses on English and mathematics performance. The SC READY assessment and the EOCEP were selected because they are designed to test nearly all students in a grade across district and charter operated schools. Both assessments were administered in all five years of the study period, from FY2015 through FY2019. The SCDE’s State Assessment website offers downloadable databases of EOCEP results and SC READY results for four consecutive years (FY2016-FY2019). Our charter school achievement database has, as a result, four years of both sets of student achievement.

TABLE 7: SCDE ASSESSMENTS MANAGED BY OR FUNDED BY THE OFFICE OF ASSESSMENT 2018-19

Program	Subject	Grades	Mandate
Pre-kindergarten: PALS, myIGDIs, or GOLD	Literacy Skills	4K	Read to Succeed Act Proviso 1A.59.
Kindergarten: Kindergarten Readiness Assessment (KRA)	Social Foundations, Language/Literacy, Mathematics, and Physical Well-Being	5K	Read to Succeed Act Proviso 1A.59
English Proficiency: ACCESS for ELLs and Alternate ACCESS for ELLs	Listening, Speaking, Reading, and Writing	K-12	ESSA
Gifted and talented identification: Cognitive Abilities Test (CogAT)	Verbal, Nonverbal, and Quantitative,	2	Regulation 43-220 Funding: Proviso 1A.26
Gifted and talented identification: Iowa Assessments	Reading and Mathematics	2	Regulation 43-220 Funding: Proviso 1A.26
Gifted and talented identification: Performance Tasks Assessments (PTA)	Verbal and Nonverbal	2-5	OCR Ruling Funding: Proviso 1A.26
SC READY	ELA and mathematics	3-8	EAA and ESSA
SCPASS	Science	4, 6, and 8	EAA and ESSA
	Social Studies	5 and 7	EAA

EOCEP	English, Algebra, and Biology	Completion of a course in which the assessed standards are taught	EAA and ESSA
	US History and the Constitution	Completion of a course in which the assessed standards are taught	EAA
SC-NCSC	ELA and mathematics	3-8	EAA and ESSA
SC Alternate Assessments	Science	4, 6, and 8	EAA and ESSA
	Social Studies	5 and 7	EAA
	English, Algebra, and Biology	HS	EAA and ESSA
	US History and the Constitution	HS	EAA
NAEP	Subjects administered each year vary	4, 8, and 12; sampled schools and students	EAA and ESSA

The Statewide End of Course Examination Program (EOCEP) assesses South Carolina students in four subjects: Algebra, Biology, English, and U.S. History and the Constitution. The mean score is reported for each subject, as well as the number of students tested, and the percentage of students’ scores in five categories (grades A-F). Results are disaggregated by demographic categories, including gender, race, ethnicity, disability, limited English proficiency, and poverty. This report focuses on Algebra and English results for all students and pupils in poverty.

Figure 15 is a box and whisker plot of charter school elementary and middle charter school performance on English and mathematics exams, organized by authorizer type. The data is drawn from the 2019 SC READY exam and each data point represents the percentage of test scores that meet or exceed state standards. Moving from left to right on the chart, the first two plots (in red) represent elementary and middle school performance on the English exam in locally authorized charter schools. The second set of two plots (in green) represent elementary and middle school performance on the English exam in state authorized brick-and-mortar schools. The third set of two plots (in blue) represent elementary and middle school performance on the English exam in state authorized virtual charter schools. The state average results for each grade level are represented by a dashed horizontal line and label.

The figure can be interpreted as follows. The box captures schools between the 25th and 75th percentile in the distribution of test scores. The lines represent whiskers extending out to the ends of the observed

distribution of test scores. A short box or whisker indicates less variation in test performance across schools. Conversely, tall boxes and long whiskers indicate substantial variation in test performance across schools. The charter school median score typically falls at or below the state average. The figure makes evident substantial variation in student performance across brick and mortar schools, with more dispersion of performance in locally brick-and-mortar charter schools. In contrast, student performance in English has a narrower distribution band across virtual charter schools.

FIGURE 15: CHARTER ELEMENTARY AND MIDDLE ENGLISH (% MEET OR EXCEED ON SC READY)

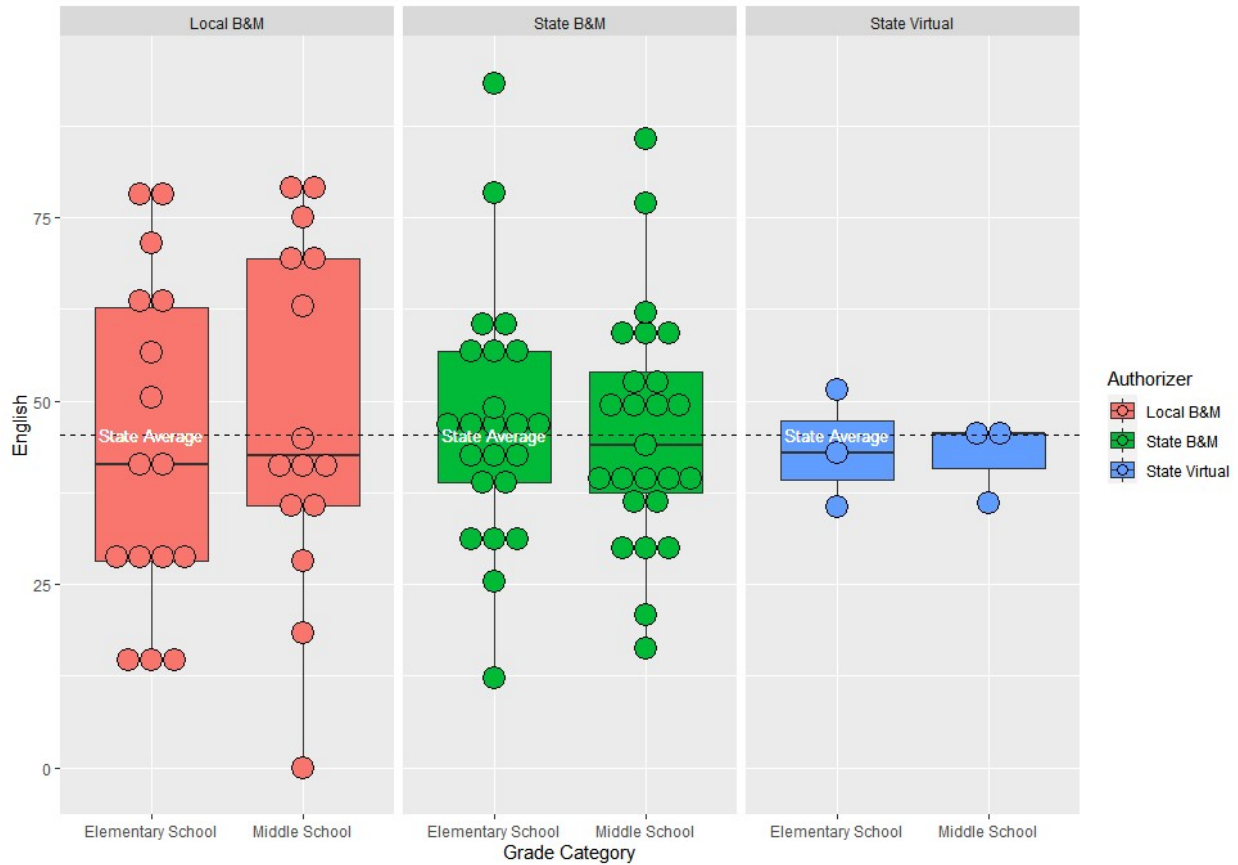


Figure 16 repeats this analysis with the mathematics SC Ready exam. In this case, the median performance of each group of charter schools falls well below state average in all six plots. The dispersion is largest in the brick-and-mortar charter schools, though in this case the locally authorized charter schools have less variation than state authorized charter schools.

FIGURE 16: CHARTER ELEMENTARY AND MIDDLE MATH (% MEET OR EXCEED ON SC READY)

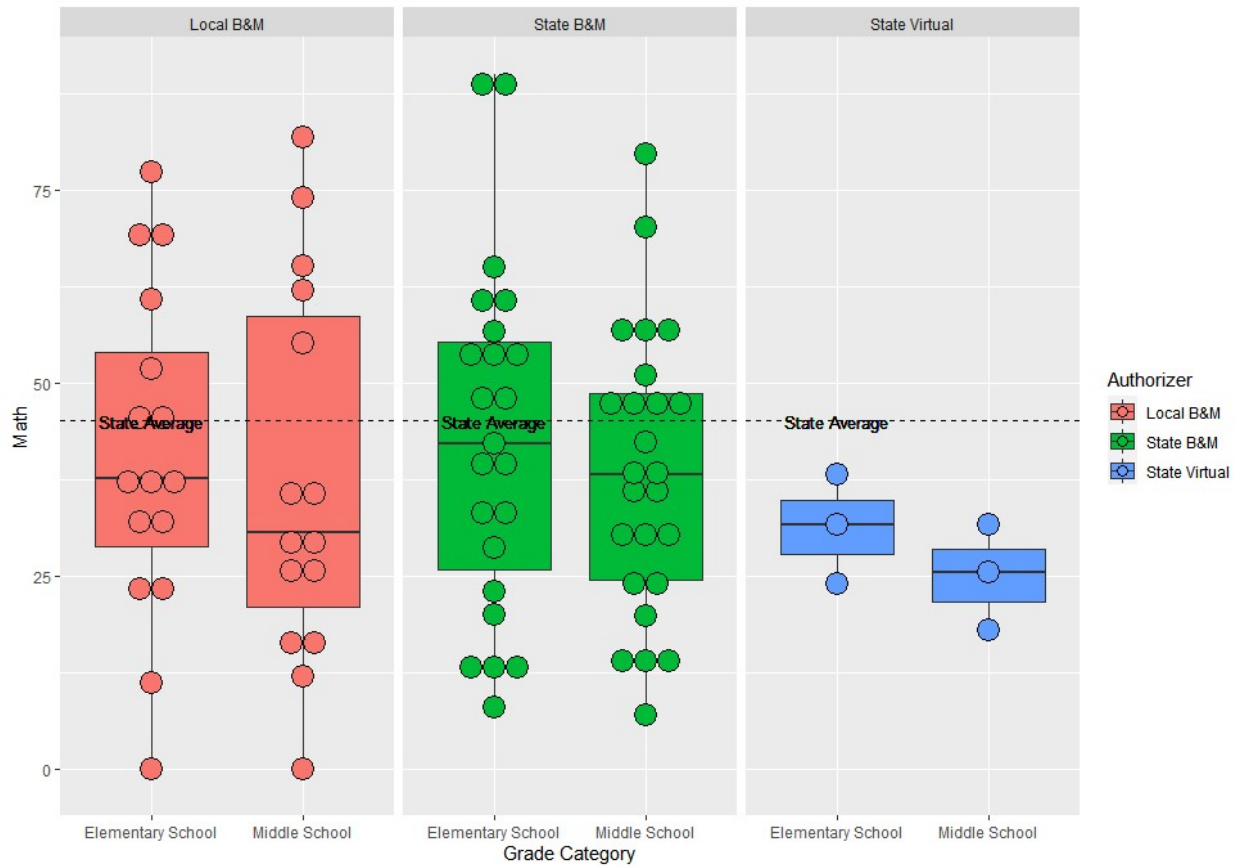
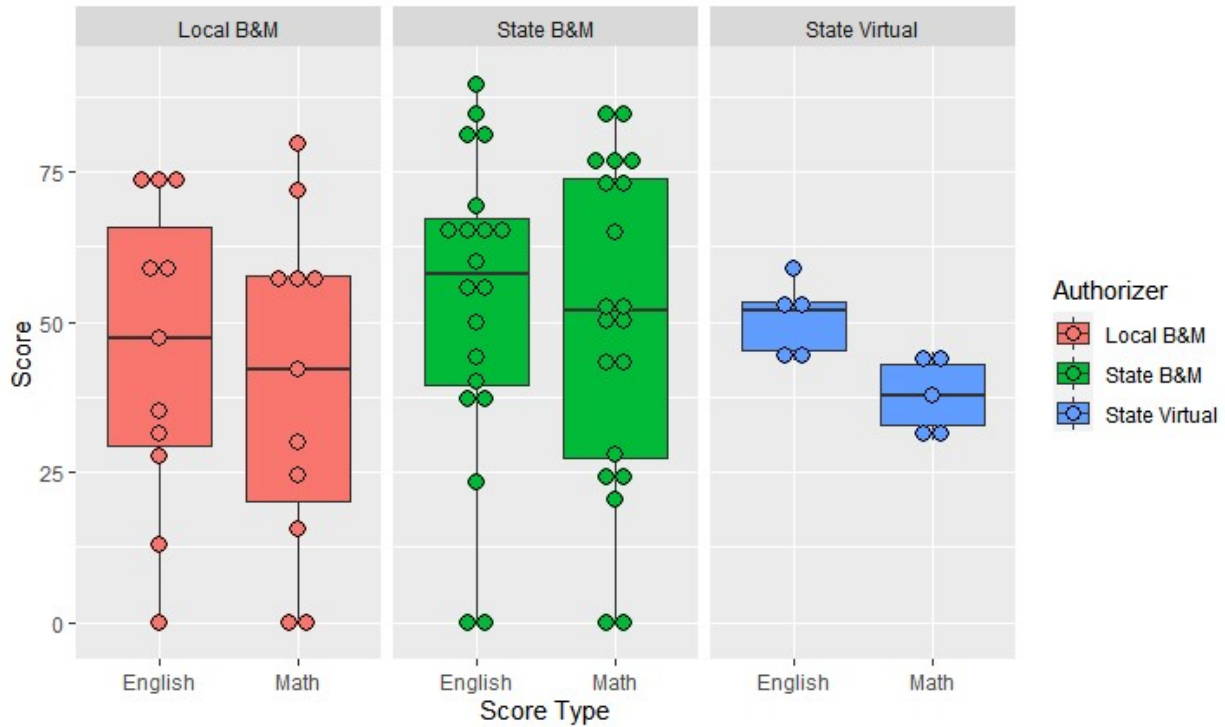


Figure 17 presents charter high school performance in English and mathematics using the same box and whisker plot approach from above. Charter high school results are presented separately because their students take a different exam, the End of Course Exam, and because the measure is slightly different. This table presents the percent of students earning an A, B, or C as its success measure. The figure indicates substantial variation in achievement on both exams across brick-and-mortar charter schools, and less variation across virtual charter schools on both exams. The median English success rate at charter high schools is higher than median mathematics across all three authorizer types.

FIGURE 17: CHARTER HIGH SCHOOL ENGLISH AND MATH (% ABC ON EOC)



SUCCESS-SPENDING QUADRANTS

In this section of the report, academic success data and weighted student expenses are brought together in a single graph. The vertical axis of each of the four figures below represent English or mathematics scores or graduation rates. Schools with more than 70 percent of students succeeding are labeled high performing and schools with less than 70 percent succeeding are categorized as low performing. The success rate cut score is set at the same level set by the state in its Every Student Succeeds Act plan. The horizontal axis represents the weighted student expense index.¹¹ Schools closer to the origin are categorized as low spending. Scores with an index value above 1.0 (state average) are categorized as high spending. The shape of the data point indicates authorizer type and the color is the school’s poverty quartile.¹²

¹¹ The weighted expense index is calculated for this plot relative to schools within one of the three authorizer types. An index value of one for a virtual charter school reflects less actual spending than an index value of one for a brick-and-mortar charter school.

¹² Charter school counts are duplicated in the success-spending quadrant charts. For instance, a K12 charter school will appear in all seven charts.

FIGURE 18: ELEMENTARY SCHOOL ENGLISH SUCCESS VS. EXPENSE INDEX (N=42)

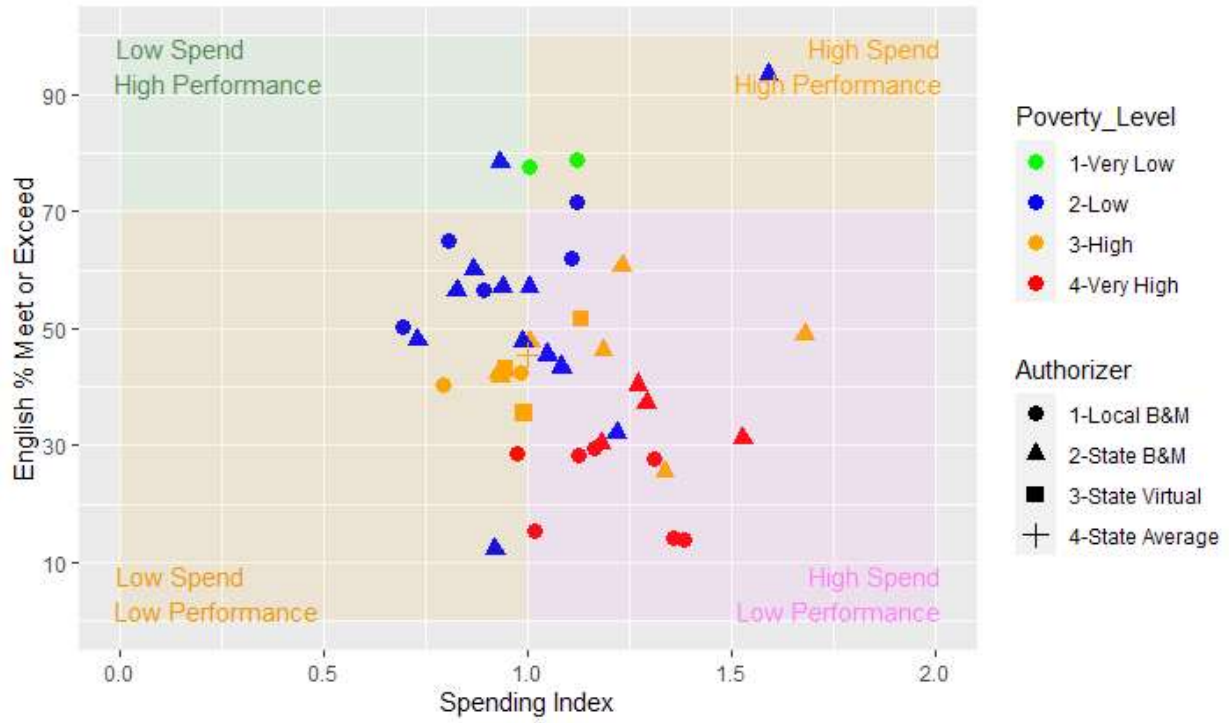


FIGURE 19: ELEMENTARY SCHOOL MATH SUCCESS VS. EXPENSE INDEX (N=41)

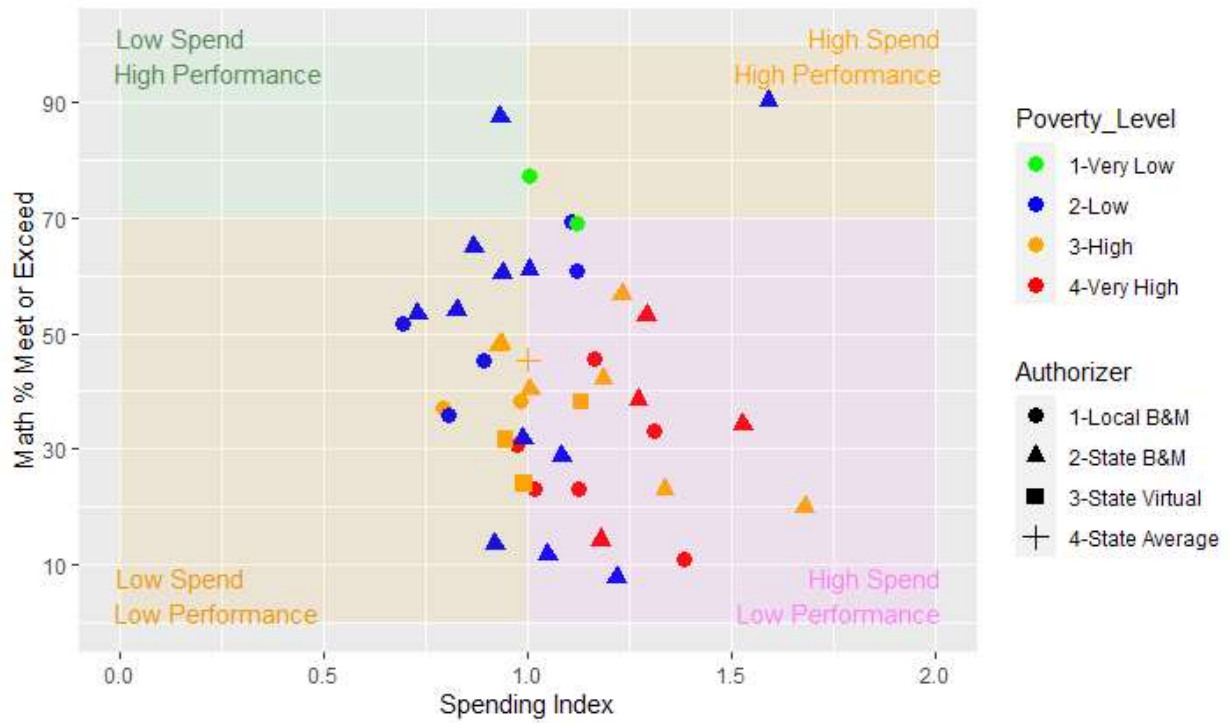


FIGURE 20: MIDDLE SCHOOL ENGLISH SUCCESS VS. EXPENSE INDEX (N=42)

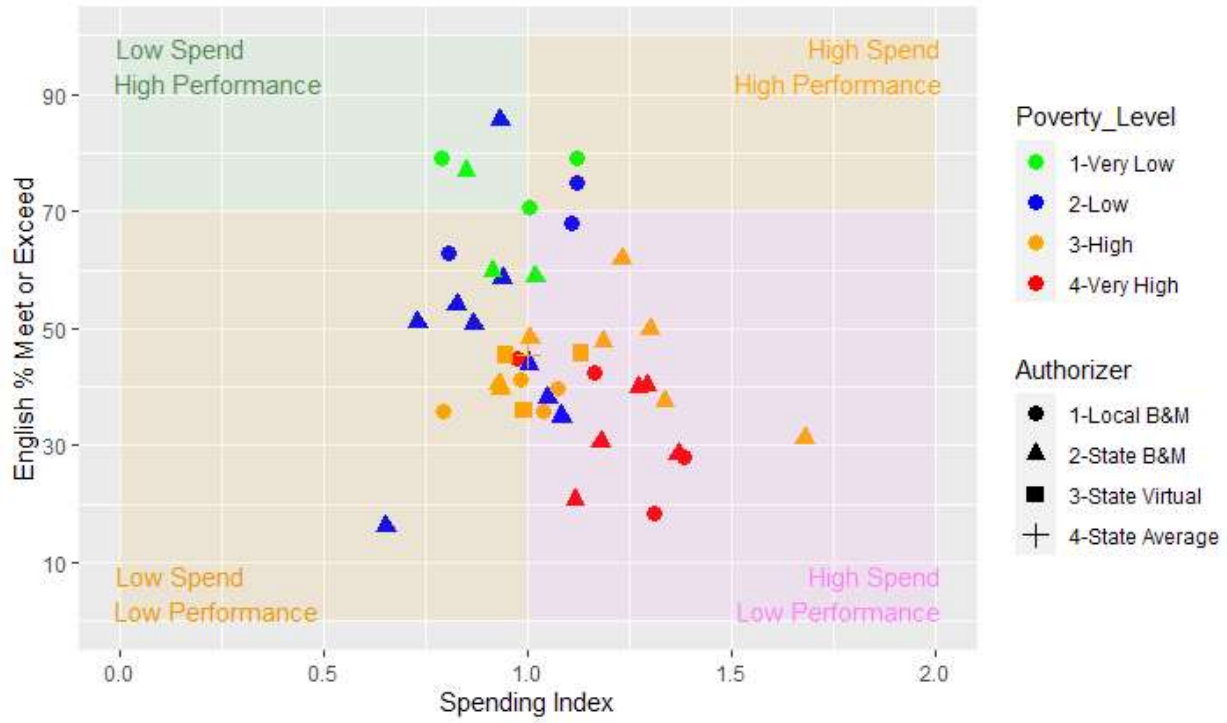


FIGURE 21: MIDDLE SCHOOL MATH SUCCESS VS. EXPENSE INDEX (N=42)

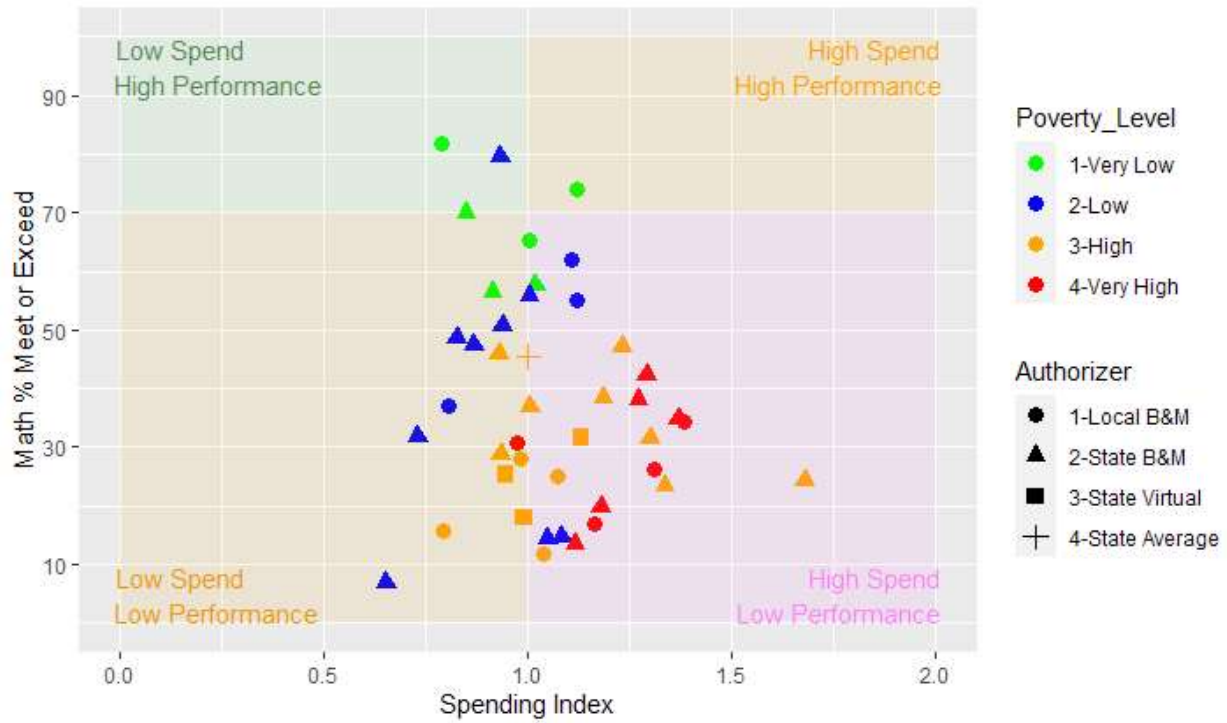


FIGURE 22: HIGH SCHOOL ENGLISH SUCCESS RATE (N=33)

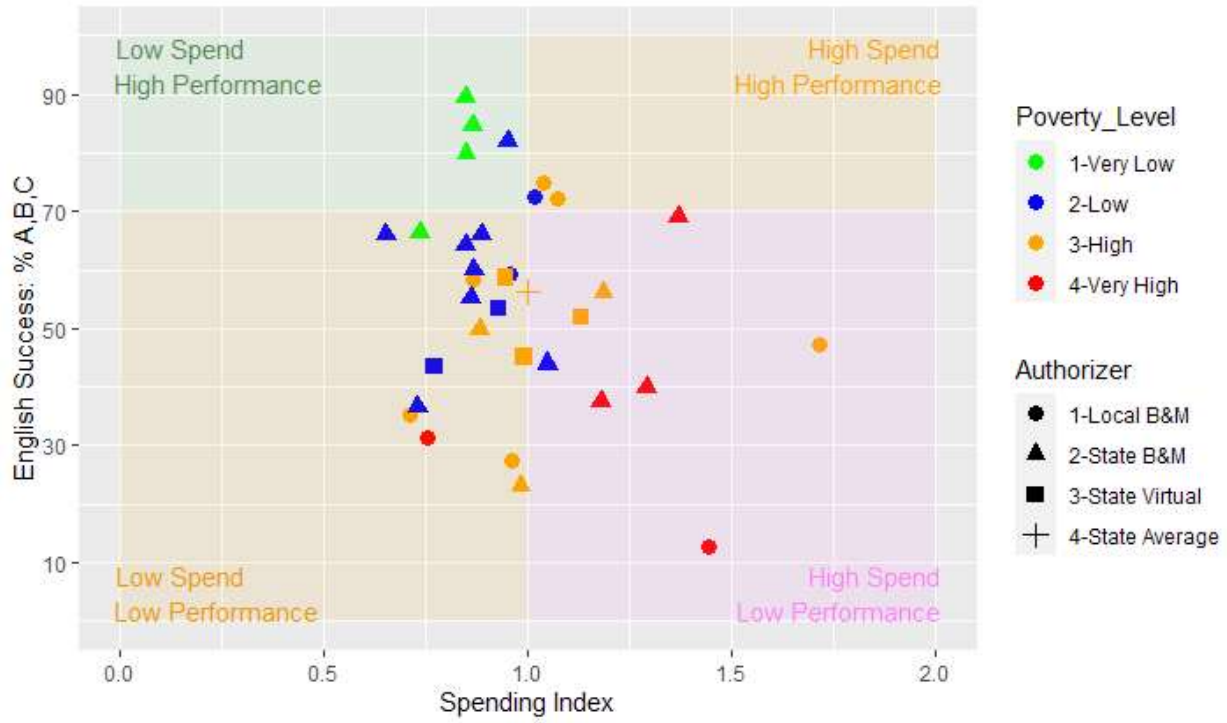
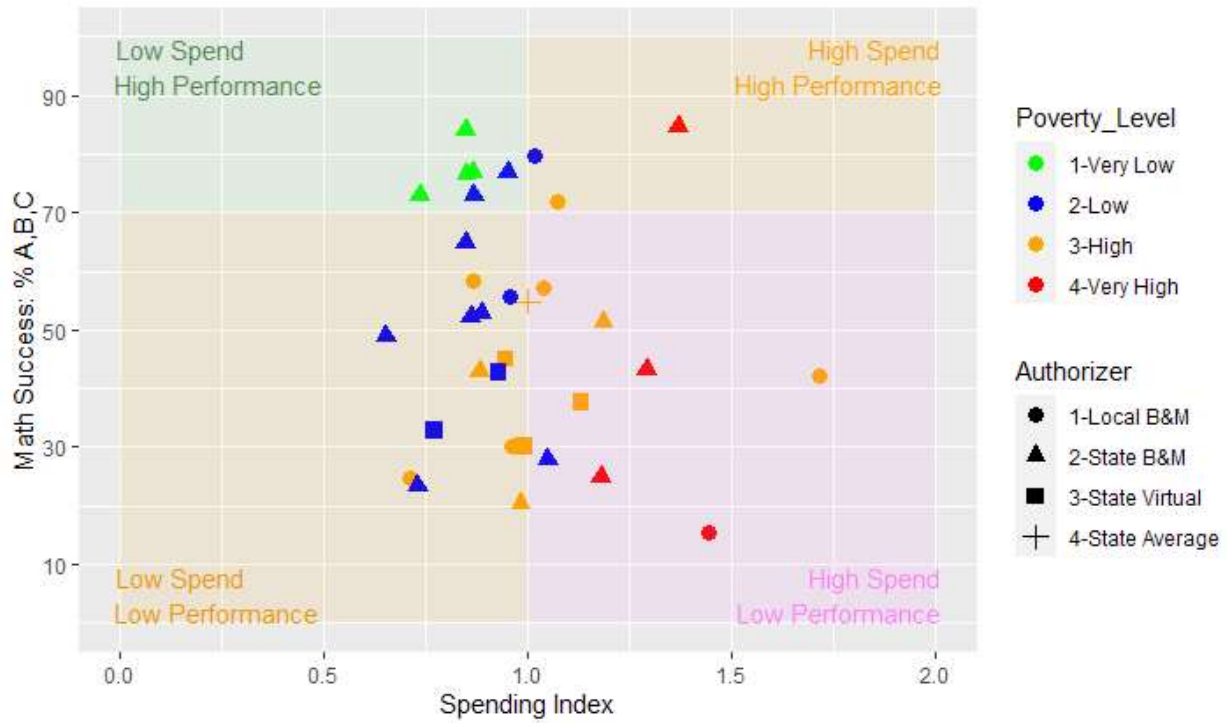


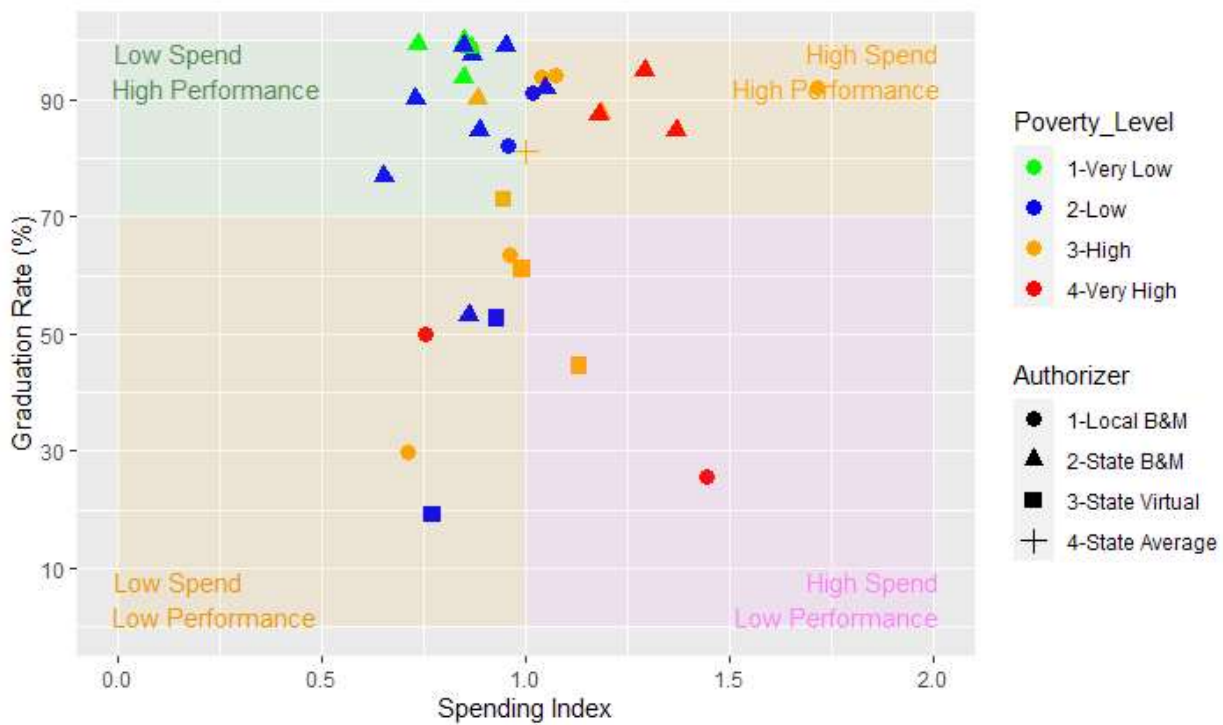
FIGURE 23: HIGH SCHOOL MATH SUCCESS RATE (N=32)



Schools that appear in the high spend, low performance quadrant are at risk of losing funding if the state adopts a more equitable charter funding formula while trying to improve student outcomes.

The final success-spending quadrant presents charter high school graduation rates by expense index. Notably, a relationship between spending and success emerges from the data. In stark contrast to the findings from the first four success quadrants, four of the five highest poverty charter high schools fall in the high-performance quadrants. Consistent with earlier findings, very low poverty schools are clustered at the top of the graduation rate scale. Four out of five high poverty schools outspend the state average. All very low poverty schools spend less than the state average.

FIGURE 24: HIGH SCHOOL GRADUATION RATE VS EXPENSE INDEX (N=32)



Findings from Success Spending Quadrants:

- Every time a high or very high poverty school made it into the high performing zone, they had a spending index greater than one.
- There is not one single charter elementary or middle school in South Carolina with a high or very high poverty rate whose success rate placed them in the high performing zone in math or English.
- In six of the seven outcome measures presented above, 100 percent of the high performing charter schools were brick-and-mortar schools.
- Only one virtual charter school made it into the high performing category, and that was for their graduation rate.

- More charter high schools achieve high performance in high school graduation rates than they do in math and English success rates.
- Charter school performance improves from elementary to middle to high school, as measured by the percent of schools achieving high performing status.

TABLE 8: SUCCESS-SPENDING QUADRANT SUMMARY STATISTICS

Grade Levels and Subject Tested	Elementary English	Elementary Math	Middle English	Middle Math	High English	High Math	Graduation Rate
N	42	41	42	42	33	32	32
Where does the state average performance fall?	< 50%	< 50%	< 50%	< 50%	<60%	<60%	>80%
What % of charters are high performing > =70%?	12%	7%	14%	10%	24%	25%	66%
What percent of high performers are brick-and-mortar charters?	100%	100%	100%	100%	100%	100%	97%
What % in the low spend, high performance quadrant?	2%	2%	7%	7%	12%	16%	38%
What % of high performing charters are high and very high poverty?	0%	0%	0%	0%	38%	25%	38%
What % of low performing charters have a spending index > 125%?	22%	18%	22%	21%	12%	13%	4%
What % of low performing charters have a spending index < 75%?	5%	5%	6%	5%	15%	13%	4%

SECTION IV

K12 PERFORMANCE FUNDING LITERATURE REVIEW

Performance funding means that some portion of funding is allocated to schools based on how well students perform academically. Performance funding is a generic term used in this report to describe a budgeting system that links funding with student outcomes. States typically modify the term to support their strategic priorities and goals. Within the state specific sections of this report, the state’s name is used for its performance funding system because it conveys the goals the state is trying to achieve. For instance, Arizona’s performance funding is referred to as results-based budgeting.

Performance funding is practiced from cradle to college by early learning systems, primary and secondary schools, and state colleges and universities. It is different from traditional funding which, regardless of how well students do academically, sets funding levels based on the number of students enrolled and how frequently they attend school. Performance funding is most commonly adopted to fund higher education systems; its use in K12 settings is less widespread.

In the past decade, policy analysts have identified six states as having some form of performance funding for K12 schools: Utah, Florida, Texas (twice), Arizona, New Hampshire, and Minnesota (see table 9 below). Three state policies (Florida, New Hampshire, & Texas) restrict performance funding to charter schools only, while the remaining four state policies apply to both charter and district operated schools. Texas appears twice because it has a performance funding rule for its online charter schools and newly passed legislation for brick-and-mortar schools. Arizona also has performance funding legislation that applies to brick-and-mortar schools. For the remaining states – Utah, Florida, New Hampshire, and Minnesota – performance funding policies or rules apply only to online charter schools or online courses. Five states, Florida, Arizona, Texas (twice), and Minnesota have passed performance funding legislation. Texas and Arizona are unique in that their performance funding policy applies to brick-and-mortar schools and is supported by state law. Texas’ formula applies only to secondary schools. Arizona’s formula applies to both primary and secondary schools. The most significant K12 performance funding policies are very new. Texas just passed its legislation this year. Arizona passed its legislation three years ago.

TABLE 9: 6 STATES WITH K12 PERFORMANCE FUNDING POLICIES

STATE	CHARTER SCHOOLS ONLY	APPLIES TO ONLINE SCHOOL ONLY	APPLIES TO ONLINE AND BRICK-AND-MORTAR SCHOOLS	PERFORMANCE FUNDING LEGISLATION	PERFORMANCE FUNDING OUTCOMES EVALUATED
Utah		○			
Florida	○	○		○	
Texas (HB 3)			○	○	

Arizona			○	○	○
New Hampshire	○	○			○
Minnesota		○		○	
Texas Virtual Schools Network	○	○		○	

Three frameworks were developed or adapted from other sources for the purposes of this review. The performance funding policy analysis framework describes (1) the funding formula and the relative and absolute amount of the budget allocated based on performance; (2) the performance metrics used; (3) administrative procedures that convert performance into funding; (4) funding weights that reflect the state’s interest in adjusting for cost differences or improving outcomes for specific student subgroups.

PERFORMANCE FUNDING POLICY FRAMEWORK

POLICY DIMENSION	DEFINITION
Funding allocated by formula	Description of the formula used, and the total amount of funding allocated based on student performance. The performance funding formula is also described in per student terms and relative to total state aid.
Performance metrics	Description of the purpose or objective of the performance funding system and the outcome measures funded by it.
Administrative procedures	Description of the funding source, timing of payments, whether the funds used are new dollars or if they come from an existing funding source, along with any new investments in administrative capacity and data integrity. Any restrictions on spending are also discussed.
Funding weights	Description of attributes weighted by the performance funding system, such as student characteristics (e.g., poverty, English learners), types of schools (e.g., grade levels served, charter status), and modes of instruction (brick-and-mortar, virtual, hybrid).

The second framework used in this literature review is a typology adopted from a report by HCM Strategists (Snyder & Boelscher, 2018). HCM’s performance funding typology, now in its second edition, employs 8 criteria to classify state performance funding systems as type I, II, III, or IV systems. The higher the type, the more robust the performance funding system. For instance, a type I system allocates less

that 5 percent of total funding based on performance. The typology is used to here to first classify and then compare K12 state performance funding systems.¹³

PERFORMANCE FUNDING TYPOLOGY¹⁴

CATEGORY	POLICY CHARACTERISTICS
Type I	<ul style="list-style-type: none"> • State may have completion/attainment goals and related priorities • Model reliant on new funding only • Low level of state funding (under 5%) • Institutional mission not reflected through varied weights, scaling, or metrics • Total, volume-based, degree/credential completion metric not included • Outcomes for underrepresented students not prioritized • Target/recapture approach likely • May not yet have been sustained for two or more consecutive fiscal year
Type II	<ul style="list-style-type: none"> • Recurring dollars/base funding at least a portion of funding source • Total, volume-based, degree/credential completion metric included
Type III	<ul style="list-style-type: none"> • Moderate level of state funding (5-24.9%), based on sector analysis • Institutional mission reflected through varied weights, scaling or metrics • Outcomes for underrepresented students prioritized
Type IV	<ul style="list-style-type: none"> • High level of state funding (above 25%), based on sector analysis • Formula-driven/provides incentives for continuous improvement • Sustained for two or more fiscal years

The Performance Funding Outcomes Framework is the third and final framework in this literature review. It summarizes the evidence on the impact that performance funding has had on the distribution of funding across schools, and the relationship between performance funding and student achievement. It then looks to the future by examining pending modifications and revisions to the current performance funding system.

¹³ While this typology was developed for assessing performance funding systems in the higher education sector, it is worth noting that according to the report South Carolina is one of only 15 states that are not either developing or implementing a performance funding system in FY2018 (Snyder & Boelscher, 2018). The report also describes the pathway to developing and implementing a performance funding system, with task forces, advisory councils, and leadership from a board of regents as the most common routes taken.

¹⁴ This typology is reproduced and adapted from HCM Strategists report (Snyder & Boelscher, 2018). The typology's application is also discussed in a legislator's toolkit report by the National Conference of State Legislatures (Boggs, 2018). Note that in Tier's II through IV only changes from the prior tier's characteristics are listed.

PERFORMANCE FUNDING OUTCOMES FRAMEWORK

OUTCOME	RESULTS
Impact on distribution of funding	Summary of current secondary evidence on the relationship between performance funding and resource allocation patterns, where available.
Impact on student outcomes	Summary of current secondary evidence on the relationship between performance funding and student outcomes, where available.
Potential policy modifications and revisions	Stakeholder policy recommendations to make improve the current system.

The remainder of the literature is organized as follows. Performance funding systems in Texas and Arizona are evaluated using the policy, typology, and outcome frameworks. New Hampshire, Minnesota, Texas (separate policy), Florida, and Utah fund online charter schools based on performance. What is known about these performance funding systems is summarized in a series of thumbnail case studies. The literature review concludes with a policy discussion of the findings presented in this report.

PERFORMANCE FUNDING IN TEXAS

The 85th Texas Legislature, in House Bill (HB) 21, established the Texas Commission on Public School Finance (Texas Commission on Public School Finance, 2018). The Commission’s 2018 report recommended sweeping changes to the way Texas funds schools with the goal of improving the economic well-being of all its residents. The Commission reported 13 major findings. Four of the Commission’s major findings are relevant to performance funding. The four recommendations that relate to performance funding in Texas are reviewed below. South Carolina’s performance on each finding is also presented.

SCHOOL FINANCE COMMISSION: FOUR MAJOR FINDINGS IN TEXAS AND SOUTH CAROLINA

<i>TEXAS COMMISSION FINDING</i>	<i>SOUTH CAROLINA FINDING</i>
The school finance system needs a clear “True North” goal to target and measure progress against.	A review of South Carolina’s School Funding Manual for 2018-19 emphasizes input equity; lacks a <i>True North</i> for student performance.
Current student outcomes shortfalls are evidenced very early within our preK-12 system.	South Carolina’s score on 2019 National Assessment of Educational Progress (NAEP) for 4 th grade literacy was statistically equivalent to Texas’s score (National Center for Educational Statistics, 2019).
Texas post-secondary completion rates fall far short in ensuring students are being prepared to contribute to our state’s economy and participate in its prosperity. Texas has a post-	With a post-secondary credential attainment rate of 43.7 percent, South Carolina falls 3.9 percentage points below the nation and just 0.7 percentage points higher than Texas. Notably, attainment rates in both Texas and

secondary credential attainment rate of 43 percent. ¹⁵	South Carolina have increase by about 10 percentage points over the past decade (Lumina Foundation, 2019).
Too few Texas students are prepared for military service. Texas’s ineligibility rate was 22.4 percent. ¹⁶	In South Carolina, 29.5 percent of applicants were ineligible for military service (Theokas, 2010). ¹⁷

The School Finance Commission table shows that Texas’ school finance systems lacks a “True North” goal to target and measure progress against. The Commission’s first recommendation was to establish a statewide goal that 60 percent or higher proficiency for critical preK-12 outcomes in alignment with Texas’ higher education goal of 60 percent of adults with a post-secondary credential by 2030 (60x30TX). The Texas Education Coordinating Board adopted the 60x30TX goal in 2015, following a similar law adopted in 2013. Texas is at 38 percent and has a 22-percentage point gap to close over the next decade (Smith, 2015). To accomplish this ambitious goal, the state plans to increase the number of degree and credentials awarded from 300,000 to 550,000 annually. The Lumina Foundation, a leader in encouraging states to set degree and credential targets appropriate for their context, set a national goal of 60 percent, the same rate that Texas selected.

The Commission’s second major finding was the inadequate academic progress of primary school students. According to the most recent National Assessment of Educational Progress 4th grade literacy assessment, fewer than half of 4th graders in Texas met literacy proficiency standards. The Commission’s third major finding was that post-secondary completion rates, while on the rise, but still fall below the national average and jeopardize long-term economic growth. The commission examined the relationship between student outcomes and military readiness. Its fourth major finding was that more than one in five students in Texas were deemed ineligible for military service, as measured by the armed forces qualification test.

Texas’ 86th legislature passed House Bill 3 in the 2019-20 session. The performance funding policy is covered in four pages of the 308-page bill (pp. 65-68). The stated purpose of the performance funding legislation is “ ... to further the goal set under the state’s master plan for higher education developed under Section 61.051 for at least 60 percent of all adults aged 25 to 34 in this state to achieve a postsecondary degree or workforce credential by 2030 (p. 65).” The performance funding section of HB3 mentions student outcomes eight times and the word bonus four times. In other sections of HB3, regular

¹⁵ Lumina defines quality credentials as degrees, certificates, industry certifications, or other credentials that—at a minimum—have clear and transparent learning outcomes and that lead to meaningful employment and to further learning. In their report “Unlocking the Nation’s Potential: A Model to advance Quality and Equity in Education Beyond High School,” the Lumina Foundation presents a framework for state to use to guard against credentials of ‘dubious’ quality by collaborating with employers and the education system to ensure students are earning credit while earning their credential.

¹⁶ The AFQT cut-off score for enlistment in the army is 31 points or higher.

¹⁷ There are similarities between South Carolina and Texas on many of the eleven remaining findings from the Commission’s report. The report is both broad in the topics and age range it addresses and bold in its recommendations making it worthy of closer examination by anyone interested in education policy reform.

reporting on the efficacy and learning gains is required. House Bill 3 does not mandate the same reporting requirements for its performance funding policy. Nor does the legislation request a return on investment analysis of the relationship between performance funding and student learning gains.

The Texas House Bill 3 Policy Analysis results are presented in the table below. The legislation does not set an aggregate budget in support of the policy. The fiscal note about the bill merely acknowledges the presence of a potential College, Career or Military Readiness Bonus for districts meeting certain criteria.¹⁸ The Texas Public School Finance Commission called for an \$800 million-dollar investment in performance funding for two priorities: reading by grade three and high school graduates that do not require remediation. Since House Bill 3 only included the latter of these priorities without a specific budget figure, an assumption was made that the original cost estimate of the policy was correct and that the cost was split evenly across the two goals.

TEXAS HOUSE BILL 3 POLICY ANALYSIS

<i>DIMENSION</i>	<i>ANALYSIS</i>
Funding allocated by formula	The \$400 million performance bonus represents about 1.9% of state K12 spending. Performance bonus awards range from \$3,000 to as high as \$7,000 per weighted student.
Performance metrics ¹⁹	<p>The Commission’s first recommendation was to establish a statewide goal that 60 percent or higher proficiency for critical preK-12 outcomes in alignment with Texas’s higher education goal of 60% of adults with a post-secondary credential by 2030 (60x30TX). Texas’s Education Commissioner sets performance baselines for each school. Schools will be awarded performance bonuses for each student above the baseline threshold that meets one of three criteria. Commissioner is to set the threshold percentage using the 25th percentile of statewide readiness from the 2016-17 cohort.</p> <ol style="list-style-type: none"> 1. Achieves Texas’ college readiness standards for accountability purposes (e.g. passing scores on state tests or equivalent ACT/SAT scores); 2. Earns an industry-accepted credential within a time period set by the commissioner;

¹⁸ For a bill with a net fiscal impact estimate of \$11.6 billion dollars that makes significant changes affecting the balance of state and local funding of public education, it is no surprise that the performance funding component receives short shrift by the fiscal note’s authors.

¹⁹ The Texas Education Agency provided a lengthy FAQ on how the College Career Military Readiness bonus will be calculated here: <https://tea.texas.gov/about-tea/government-relations-and-legal/government-relations/hb-3-faq-focuses-learning-and-student-outcomes>.

Currently, Military Enlistment and ASVAB scores are listed as data sources for the CCMR Outcomes Bonus, however TEA is still working with the Department of Defense to validate enlistment and test score data. Texas set the passing score based on enlistment data.

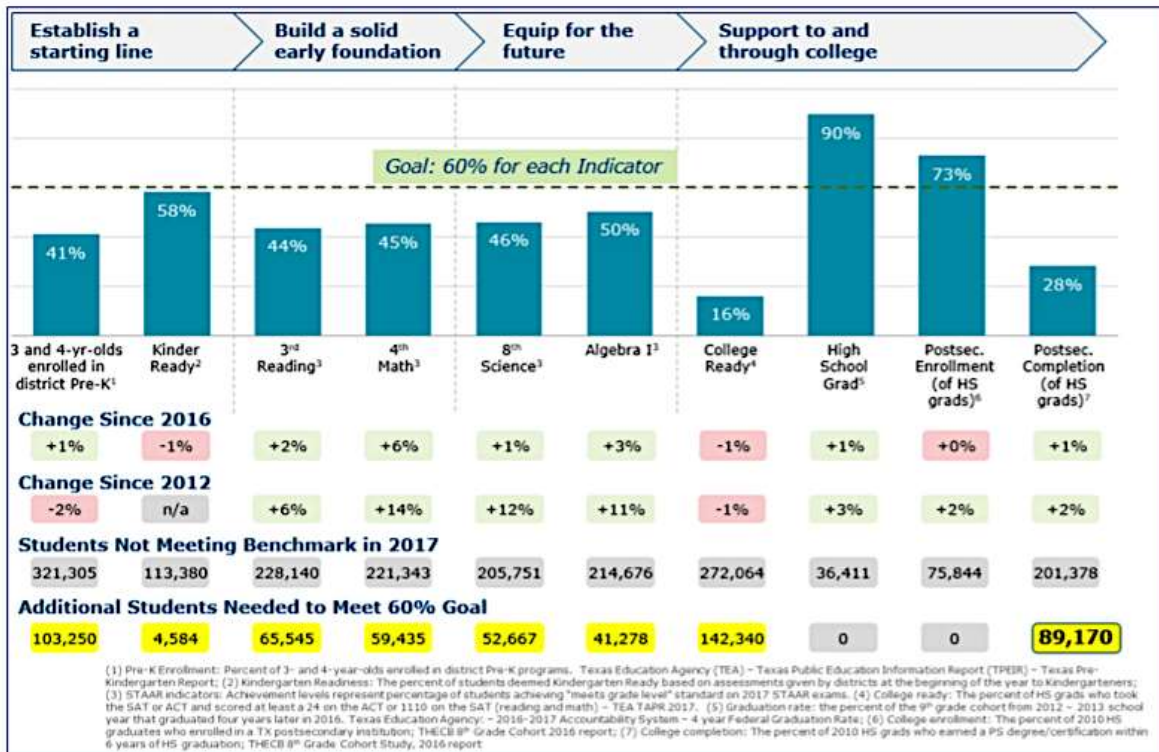
	3. Enlists in the armed forces or achieves a passing score on the Armed Services Vocational Aptitude Battery.
Administrative procedures	At least 55 percent of the bonus funds earned by districts must be re-invested in college, career and military Readiness in grades 8-12.
Funding weights	<ol style="list-style-type: none"> 1. Graduates who are economically disadvantaged, \$5,000; 2. Graduates who are not economically disadvantaged, \$3,000; 3. Graduates enrolled in special education, \$2,000 regardless of disadvantaged status.

This is the first and only performance funding policy reviewed in this report to be connected directly with a statewide goal. In this case, Texas followed the lead of the Lumina Foundation and set a goal of ensuring 60 percent of adults held a post-secondary degree or credential by 2030. Exhibit E from the Texas Commission on Public School Finance’s final report presents a statewide cradle to career pipeline with current performance levels and trends on 10 key indicators. 9yy

**Texas Commission on Public School Finance
Final Report**

Exhibit E

Where We Stand Today: Texas’s Education and Workforce Pipeline Need for about 90,000 Additional Students Completing to Meet 60x30TX Goal



Texas' goal setting and communication efforts were clear and easy to interpret. The legislation provides the Commissioner of Education with the authority to set the performance threshold each year for each district. The expectation is that performance levels will be set at the 25th percentile based on data that is two years old. A FAQ document provided by the Texas Education Agency clarifies gaps in the legislation about how the 25th percentile will be defined. The 25th percentile threshold will be set statewide by economic disadvantage status (yes/no), and special education status. It is also unclear why the performance threshold will be based on 2016-17 – a lag of three years by the time schools are set to receive funding in April of 2020. One concern with this gap between performance and reward is that the faculty and staff members change overtime. New faculty and staff members may be rewarded with larger school budgets for student outcomes they did not assist in achieving. This long lapse in time between result and reward lessens the incentive's effect on faculty and staff behavior.

Texas defines graduate readiness as meeting the states college readiness standards for accountability purposes, an earned industry-accepted credential, or a passing score on the Armed Services Vocational Aptitude test. There are several ways a student in Texas can mix and match their performance to meet the college readiness standard (the first standard), including standardized test results and performance on end of course exams. Standards two and three are more directly stated and easy to interpret. By providing substantial bonuses to increase the number of students who meet one of these standards, Texas should be lauded for paying for higher performance now rather than remediation later. However, interpretation of the results will require significant investment in data collection and analysis. Fortunately, Texas has one of the most robust data collection and reporting systems in the country.

Texas has some unique characteristics to the way it administers performance funding. As mentioned above, the state rewards schools that meet performance requirements several years after the fact. Schools that receive performance funding bonuses must use at least 55 percent of the bonus funds on College, Career, or Military Readiness initiatives in grades 8-12. It is hard to imagine an investment a high school could make that did not, at least in the most oblique way, help students achieve this goal. The fiscal note cited above states that districts will receive a bonus. For small districts with a single high school this may be less of a concern, but for larger districts, those funds may be used to support district initiatives unrelated to the schools whose performance earned the funds. More clarity is needed about whether the state restricts use of performance bonuses to the schools that earned them and to what extent (e.g., all funds, 80 percent).

Performance funding in Texas prioritizes additional investment in two at-risk student subgroups: students whose families are economically disadvantaged and students who are enrolled in special education. The additional at-risk bonus of \$2,000 is a 67 percent increase over the performance bonus awarded for graduates who are not economically disadvantaged. The additional bonus of \$2,000 for a graduate with special needs who is not economically disadvantaged is also a 67 percent increase over the performance bonus awarded for graduates who are not economically disadvantaged. For an economically disadvantaged graduate with special needs, the performance bonus rises to \$7,000, representing a weighted funding level that is 233 percent higher than the base-level bonus of \$3,000 for a graduate who is not at-risk.

TEXAS' PERFORMANCE FUNDING TYPOLOGY

Texas' Performance Funding Typology table shows a policy with an equal number of Type I and Type II traits. Texas's policy is new, it represents a small percentage of total state funding, and it may require new funding to expand to include goals for primary school students. But performance bonuses do not appear to be capped. Most importantly and promisingly, Texas has connected performance funding with broader state-wide goals for its workforce via its 60x30 initiative. Texas Education Agency mission is to provide leadership, guidance, and resources to help schools meet the educational needs of all students and prepare them for success in the global economy. With weights of 67 percent to 133 percent for economically disadvantaged students and students with special needs, Texas's performance funding policy is designed to support all students in keeping with TEA's mission.

CATEGORY	POLICY CHARACTERISTICS ²⁰
Type I	<ul style="list-style-type: none"> Expansion of the Texas model may be reliant on new funding Texas model offers a low level of state funding (under 5%) Texas has not sustained performance funding for two or more consecutive fiscal year
Type II	<ul style="list-style-type: none"> Bill passed with benefit of new funding, but performance funding is not reliant on new funding only. State has completion/attainment goals and related priorities By aligning to the state's 60X30 initiative, Texas is setting volume-based, degree/credential completion metrics and goals.
Type III	<ul style="list-style-type: none"> By weighting students from economically disadvantaged backgrounds and students with special needs, the policy ensures additional support for students who need it.
Type IV	<ul style="list-style-type: none"> None

The performance funding outcomes framework is omitted for Texas because the legislation passed this year and performance funding has yet to be implemented. The legislation has not had time to impact either the distribution of funding or student achievement. All that can be said about the performance funding policy that was adopted is that it falls short by half what the School Finance Commission's

²⁰ This typology is reproduced and adapted from HCM Strategists report (Snyder & Boelscher, 2018). The typology's application is also discussed in a legislator's toolkit report by the National Conference of State Legislatures (Boggs, 2018). Note that in Tier's II through IV only changes from the prior tier's characteristics are listed.

recommendation in terms of funding and number of students effected. Early positive secondary achievement gains could bolster advocates attempts to implement a \$400 million third grade initiative, as recommended by the school finance commission (Texas Commission on Public School Finance, 2018). Broader consensus and support for third grade reading standards and assessments are also needed for performance funding to expand to primary schools in Texas.

PERFORMANCE FUNDING IN ARIZONA

Arizona’s performance funding system is designed to reward high performing schools with additional funding so that they can serve more students. The policy is in its third year of implementation. Funding was flat at \$38 million for the first two years and then nearly tripled to \$98.3 million in FY2020. The unweighted performance funding award per student of \$250 represents a 6.3% increase over the foundation formula of \$3,960 per student in FY2019. The weighted performance funding award per student of \$400 represents a 10.1% increase. The funding source for performance funding must be renewed annually (Irish, 2019).

ARIZONA’S SB 1530 POLICY ANALYSIS

DIMENSION	ANALYSIS
Funding allocated by formula	<ul style="list-style-type: none"> ● Arizona allocated \$38 million to performance funding in the first year of the program FY2018. ● Funding was flat in FY2019. ● Funding nearly tripled to \$98.3 million in FY2020. ● The unweighted performance funding award per student of \$250 represents a 6.3% increase over the foundation formula of \$3,960 per student in FY2019. The weighted performance funding award per student of \$400 represents a 10.1% increase.
Performance metrics	<ul style="list-style-type: none"> ● The purpose of performance funding is to “recognize, reward, and replicate excelling schools with most of the money going to teachers and the rest toward expanding successful schools or programs (Ducey, State of Arizona Executive Budget Summary Fiscal Year 2018, 2017).” ● Schools that achieve AzMerit test scores in the top 10% of all schools FY2018. ● Schools that receive a letter grade of A FY2019. ● By FY 2020 the threshold had widened to the top 13% of all schools and a new category was created for high poverty schools that score in the top 27% on Math and English Language arts receive the unweighted bonus of \$225. Alternative high schools that score in the top 27% are awarded a \$400 per student bonus.
Administrative procedures	<ul style="list-style-type: none"> ● The Arizona performance funding system relies on a new source of funding initially allocated by the Governor’s executive budget. Legislation first appeared in SB 1530, and then HB 2749 starting in FY2020. The use of performance funds is restricted to

	increasing teacher salaries, providing professional development opportunities for teachers, and expanding enrollment capacity.
Funding weights	<ul style="list-style-type: none"> • Extra 60% weight (\$150) for successful students who attend low income area schools serve a student body where 60 percent or more of students qualify for free or reduced-price lunch (for a family of four with an income of \$44,955 or less). Weight expanded to include alternative high schools in FY2020.

The state initially awarded schools that scored in the top ten percent on the AzMerit tests in Math and English Language Arts. In the second year of the program, the state awarded performance funding to schools that earned a letter grade of A. In year three the state switched back to awarding top AzMerit scoring schools but increased the percentage band by three percentage points to include schools that scored in the top 13 percent in the state. Arizona added two new categories in year three: high poverty schools in that scored in the top 27 percent now earn the unweighted bonus of \$225 per student and alternative high schools that scored in the top 27 percent are awarded the weighted bonus of \$400 per student.

The use of performance funds is restricted to increasing teacher salaries, providing professional development opportunities for teachers, and expanding enrollment capacity. Arizona provides an extra weight of \$150 (60%) for low income area schools that serve a student body where 60 percent or more of students qualify for free or reduced-price lunch. The same weighted allocation of \$400 was added to the performance funding legislation in FY2020 for alternative high schools.

ARIZONA’S PERFORMANCE FUNDING TYPOLOGY

CATEGORY	POLICY CHARACTERISTICS
Type I	<ul style="list-style-type: none"> • Performance funding linked to the AzMerit test score system, which is also used to assign schools letter grades., but total degrees and credentials are not referenced. • Model is reliant on new funding only. • The mission of the Arizona Department of Education is to serve Arizona's education community, ensuring every child has access to an excellent education. Institutional mission not reflected through varied weights, scaling, or metrics. • Total, volume-based, degree/credential completion metric not included • Funding level is determined by a categorical fund, not by formula.
Type II	<ul style="list-style-type: none"> • The performance funding level is equal to between 6% and 10% of state aid.
Type III	<ul style="list-style-type: none"> • With 60% weights for students in high poverty schools, outcomes for one large underrepresented group of students prioritized.

Type IV	<ul style="list-style-type: none"> • Sustained for three fiscal years
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Arizona’s performance funding system meets the criteria for a Type I system on four different policy characteristics, according to the framework presented above. The policy relies on new money and does not affect base funding. It loses marks for lacking degree/credential-based metrics. Arizona’s performance funding policy directs relatively small bonus amounts, but compared with current per student state aid levels, the bonuses represent between 6% and 10% of state aid. By increasing funding for the policy in its third consecutive year of operation, Arizona has achieved Type II status on this criterion of the performance funding typology. By assigning a weight of 60% on allocations aimed at high poverty schools, Arizona earns positive marks for aligning its weights with the equity-enhancing mission of public education (type III). For achieving three years of implementation, Arizona’s policy is classified as type IV on this characteristic.

Arizona’s policy has been revised three times in three years. There is evidence about how the funds were distributed during the first year, but resource allocation patterns under the new version of the policy have yet to be studied. A majority (70%) of the initial distribution of performance funding went to low poverty schools. This result was not sustainable politically and the policy was changed so that twice as many high poverty schools will be awarded funds in FY2020, though the newly added group of high poverty schools that rank between the top 13 and 27 percent of schools on the AzMerit tests will be awarded the unweighted amount of \$225 per student. The theory of action to system improvement in Arizona relies on increasing the number of seats in high performing schools. Arizona’s performance funding system is designed to reward already high performing schools with additional funding so that they can serve more students. A study has yet to be performed that examines enrollment level changes in schools that received performance bonuses.

OUTCOMES IN ARIZONA

OUTCOME	RESULTS
Impact on distribution of funding	<ul style="list-style-type: none"> • 288 Schools earned \$38 million in performance funding in FY2018. • About two-thirds of the performance funding went to middle- and higher-income schools (Rau, 2017). • 16 percent of Arizona’s public-school students attend a charter school. 30 Percent of the Results-Based Funding went to charter schools (13 percent to two charter operators) (Rau, 2017). • Notably only one study has been done to date on the distribution of performance funds.
Impact on student outcomes	No studies of the relationship between Results-Based Funding in Arizona and student outcomes have been published to date.

<p>Pending modifications and revisions</p>	<p>“The FY 2020 Executive Budget distributes RESULTS-BASED FUNDING using the AF letter grade designation where “A” schools with a 60% or higher Free or Reduced Lunch rate will receive \$400 per pupil and schools with Free or Reduced Lunch rates below that threshold will receive \$225 per pupil. This conversion and other important policy changes have increased the cost of RESULTS-BASED FUNDING in FY 2020 by \$59.7 million, for a total of \$98.3 million. In addition to funding both high- and low-income “A” schools, the Executive Budget expands RESULTS-BASED FUNDING’s scope to recognize growth toward achievement at schools with higher needs by including “B” schools with a 60% or higher Free or Reduced Lunch rate. As part of this policy change, “B” schools will receive \$225 per pupil. The Executive estimates that, as shown in Figure 6, current data indicates 675 schools will qualify for RESULTS-BASED FUNDING in FY 2020. To ensure that the RESULTS-BASED FUNDING is rewarding high outcomes and incentivizing expansion, the Executive proposes more detailed and centralized reporting of the uses of the RESULTS-BASED FUNDING at the school site level. In addition, the Executive believes that this data will provide insight into the best practices that Arizona’s highest performing schools are utilizing to produce their outstanding academic outcomes. These success strategies can then be shared publicly to assist struggling schools to improve student achievement” (Ducey, 2019).</p>
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PERFORMANCE FUNDING OF ONLINE CHARTER SCHOOLS

In 2015, three states were identified as having performance funding for online charter schools or online courses: Florida, Minnesota, and New Hampshire (Patrick, 2015). A report published by the Center on Reinventing Public Education that same year added Utah to the list of states using performance funding for online charter schools (Rosa Pazhouh, 2015). These reports captured the universe of a very new and compelling funding formula.

Performance funding systems for online charter schools are discussed in less detail than the Arizona and Texas policies, described above, for a variety of reasons. Performance funding policies for online charter schools are less likely to be required by state law. For instance, New Hampshire’s policy is contained in a Memorandum of Understanding between the online charter school and the Department of Education. Even when they are required in state law, as is the case in Florida, there is evidence that the state has yet to use results to modify funding amounts distributed to Florida Virtual School and the state revoked performance funding legislation in 2017.

Only New Hampshire’s system has been studied in significant detail. Nevertheless, what is known about performance funding for online charter schools is important for readers of this report. In a series of thumbnail case studies, the limited information available about each state’s performance funding approach for online charter schools is presented below.

NEW HAMPSHIRE²¹

New Hampshire has just one state-wide online school: The Virtual Learning Charter School (VLACS). At VLACS, time spent learning and completing assignments is variable, meaning students are allowed as much or as little time needed to exhibit mastery over competencies in order to earn credit. By eliminating seat time requirements, VLACS needed a new funding mechanism to support its focus on student outcomes. Instead of assuming the state required all schools to be funded by average daily membership (ADM), VLACS founder and current CEO Steve Kossakoski sought an alternative approach by assuming areas unaddressed by current statute were available. With this perspective, he created a funding system that met VLACS' needs without violating existing state statute. VLACS negotiated a memo of understanding (MOU) with the state that converts completions into membership, thus meeting the needs of both institutions.

Performance funding at VLACS is based on the percentage of assignments a student completes, regardless of the amount of time a student spends enrolled in a course. VLACS calculates 'credits earned' per student based on that percentage and then aggregate credits earned across their entire student body. The total number of credits earned by all students is divided by 6 to equal one full-time equivalent student. The resulting quotient is the VLACS' ADM equivalent enrollment that is then multiplied by NH's charter school student funding rate (\$5,498 in 2015). Because VLACS is funded for the percentage of assignments completed, the system is considered low stakes in contrast to Florida's high stakes all or nothing approach. The low-stakes approach reduces the risk of VLACS losing full funding for students to whom VLACS has provided instruction, but who may be unsuccessful at completing the entire course.

The MOU between New Hampshire and VLACS established that from 2009-2013, the online charter school would be funded at a non-negotiable rate of \$5450 per student, and a second MOU increased the student funding rate to \$5498.30 for 2013-2015. According to Kossakoski, "Each biennium, all charter schools submit projected enrollment numbers to the Department of Education. If the state budget is approved and enrollment numbers are accepted, then the MOU is created based on the approved budget." Also written into the enrollment agreement is a funding cap on the total amount VLACS can receive from the state. New Hampshire's biennial budget funds VLACS via a line item allocation for two-year increments.

A potential cash flow problem for states and schools considering adopting a performance funding system concerns reconciling the timing of incurred expenses to revenues earned. The timing becomes problematic when a state compensates schools after students complete a predefined milestone because it delays setting the budget until after the school year starts. And by then, schools have incurred or encumbered most of their instructional expenses for the academic year. New Hampshire solves this dilemma by forward funding VLACS based on average completions each year and then reconciles averaged with actual completion rates at the end of the academic year. Any surplus or deficit carries over to the

²¹ Parts of the New Hampshire case study are copied directly from a report written by the author of this report (Miller, 2016).

following year's funding. This approach allows VLACS to operate without a line of credit, reducing operating costs and financial risk for the school.

States must decide from where to draw resources for online schools, especially for students taking only a few classes. They could require funding to follow students, in which case funds would be transferred from the sending school districts to online charter schools. The alternative approach introduces new funding into the system, allowing the sending school district to retain the full student allocation while also compensating the receiving school upon successful student completion of the course. New Hampshire decided to increase funding and not require districts to pay VLACS tuition for part-time students. However, under this model, funding follows full-time students.

VLACS funding levels are not influenced by student demographics. A completion is funded at the same rate regardless of who earned it. A weighted completion would provide schools with additional resources for completions from students who qualify for supplemental services, including students with special needs, students from economically disadvantaged backgrounds, and English learners. New Hampshire's performance funding is a low-stakes approach because it funds based on assignment completion rather than summative assessments. New Hampshire spends about 50 percent less on VLACS under its performance funding arrangement than it would under enrollment-based funding.

TEXAS VIRTUAL SCHOOL NETWORK²²

Texas Virtual School Network (TXVSN) is operated by the Texas Education Agency. According to the network's website, 15,954 students enrolled in the eight online schools that operate under its authority last year. Texas Virtual School Network is performance funded because Texas Education Code requires its schools to invoice school districts or charter schools at 100 percent when a student successfully complete a course, but no more than 70 percent prior to successfully completing the course (Keeping Pace with K-12 Online Learning, 2016). Texas applies the same 70 percent threshold standard to earning credit for the course, as well. This performance funding policy puts the school in a conflict of interest with respect to grading student work and ensuring the schools fiscal health. The maximum number of courses funded is capped at three annually for part-time TXVSN students. Full-time students that earn passing marks in five or more courses are funded as full-time equivalent students. Full-time students who earn passing marks in three or four courses are partially funded. Full-time students who earn three credits or less are not funded. For grades 3-8, if a full-time TXVSN online student successfully completes the grade-level and is promoted to the next grade, the school receives full funding; if the student does not meet the requirements to be promoted, the school receives no funding (Keeping Pace with K-12 Online Learning,

²² A course provider in the TxVSN statewide course catalog shall receive: Statutory Authority: The provisions of this §70.1025 issued under the Texas Education Code, §30A.051(b). Source: The provisions of this §70.1025 adopted to be effective February 27, 2013, 38 TexReg 1163; amended to be effective April 7, 2015, 40 TexReg 1967.

2016). Notably, there are no weights for at-risk students in the TXVSN performance funding policy. Except for the Keeping Pace report cited in this section, the TXVSN performance funding policy has not been analyzed in terms of its impact on the distribution of resources. While the performance funding policy has not been explicitly studied to determine what impact if any it is having on online student learning outcomes, CREDO analyzed online student performance in Texas and found students attending online charter schools experience 46 fewer days of learning in reading and 165 fewer days of learning in math than their peers attending brick-and-mortar district-operated schools (Center for Research on Education Outcomes, 2017).

FLORIDA

Florida Virtual School (FLVS) was funded based on Florida's traditional enrollment-based funding system for its first five years of operation. In 2003, the Florida legislature changed the way it funded FLVS to performance funding legislation (Tucker, 2007). Florida's performance funding policy allocated revenue to FLVS when a student passed an end-of-course exam. In theory, the policy was high stakes in that FLVS either earned 100 percent of expected revenue for teaching a student or no revenue at all. Over the past decade, policy analysts wrote fondly about Florida's performance funding policy pointing to a new future in which schools were rewarded financially for demonstrated gains in student learning (Rosa Pazhouh, 2015). In practice, however, many of the courses in FLVS's catalog did not have an end-of-course exam and so the state relied on the FLVS to report whether a student passed the exam or not, creating a potential conflict of interest between state accountability and school funding levels. Moreover, it remains unclear whether the state had the reporting requirements in place to reliably fund FLVS on a performance basis. The final chapter on performance funding in Florida was unceremoniously written in 2017, when Florida Statute 1002.37 stripped FLVS's performance funding policy and reverted to funding the school based on enrollment.

MINNESOTA

Minnesota Statutes 2010, section 124D.095, subdivision 10 established an Online Learning Advisory Council charged with making recommendations to the Commissioner of Education on a variety of topics, including funding. The Online Learning Advisory Council's report recommended expanding the current performance funding policy that only impacts supplemental coursework to all online courses. They cited Florida as a model for performance funding legislation. The report states that online course vendors are only paid if the student completes the course. The report goes on to state that "This pay for performance or course completion is intended to assure quality but in effect has had a chilling effect on programs willing to offer online instruction because the risk of not getting compensated increases when students enroll but are not prepared for the self-directedness it requires. High-risk students often gravitate toward online learning believing it will be easier when in fact it requires more active learning and participation by an individual student (Minnesota K12 Online Learning Advisory Council, 2013, p. 46)."

A review of Minnesota Statute 124D.095 provides additional details about performance funding for online courses. "The initial online learning average daily membership equals 1/12 for each semester course or a

proportionate amount for courses of different lengths. The adjusted online learning average daily membership equals the initial online learning average daily membership times .88.” This is the first performance funding policy reviewed to adjust online funding for attendance. The statute continues “No online learning average daily membership shall be generated if: (1) the student does not complete the online learning course, or (2) the student is enrolled in online learning provided by the enrolling district.” Performance requirements are only applied to online coursework taken outside the student’s home district. It is unclear what interest the state is advancing when the fully fund online student performance when taken locally but fund it 100 percent on successful completion with no partial payments if the online course is provided by anyone other than the students home district.

Course completion is defined in another section of the Minnesota statute. A student completed the course if they earned credit for it. This standard clearly defers to local control in setting completion standards. It also opens the state up to criticism that it is setting off a race to the bottom. A district or provider with very low completion standards could generate lots of student completions, lots of public revenue, and very little learning. Like TVSN, Florida and New Hampshire, Minnesota’s performance funding policy does not weight funding levels for at-risk students.

UTAH

According to a report by the Hunt Institute, Utah funds online courses based on completion. The school receives 50 percent after a student enrolls in the course and the remaining 50 percent once the student earns course credit (Hunt / Kean Leadership Fellows, 2015). A similar description of Utah’s performance funding policy can be found in Minnesota’s K12 Online Learning Advisory Council Report. Sources found in these reports link to old blog posts or policy reports that are no longer available online. A search of state statutes and education code was performed. It revealed a 2013 House Bill 0393 recommend a study of competency-based funding. But no mention of the statute or administrative rule cited by several studies could be found.

SECTION V

CONSIDERATIONS FOR POLICYMAKERS

Attendance Policies: *Establish an in-person attendance policy and reporting requirements for virtual schools and school-specific attendance policy requirements for all charter schools.*

A small addition at this study's outset, the collection of attendance policies, revealed surprising findings about best practices in some schools and no school-based practices in others. It also highlights an opportunity for the state to provide virtual charter schools with additional guidance on how they should count students when they are online and when they are participating in synchronous, possibly in person educational activities.²³ Making schools more accountable for inputs, like attendance taking and reporting, is the traditional path taken by most K12 systems. Oklahoma recently passed legislation for its virtual schools that follows this approach. The question is, will that legislation result in improved student outcomes? If policymakers take this path, they also must establish a process by which the data is analyzed and acted upon, with high stakes consequences for schools failing to meet the required in-person instructional standards. The alternative pathway for policymakers is to stop measuring inputs and fund schools on student performance. More information on that approach is presented below.

Financial Transparency: *Collect annual financial reports (AFR's) from all charter schools each year and making them available for download.*

It was our experience that submission rates increased considerably for AFR's that were produced recently. While 43-172 indicates an annual audit must be submitted to SC Department of Education, posting the audit online is not a statutory requirement. Few charter schools post these reports for easy access and download by stakeholders. It is hard to imagine many charter school stakeholders going to the lengths our research team did in order to obtain these reports. Establishing an annual submission process is not a big request. Charter schools are required to prepare an AFR already, so the state would simply be requiring charter schools to share a copy of it. Posting them allows easy access to each charter schools financial information and that can aid parents in the school choice process as well as authorizers reviewing charter renewal applications.

Financial Transparency (part II): *Convene charter schools to recognize and promote financial reporting best practices.*

²³ Online schools do offer in-person learning opportunities. Some are organized and led by faculty and staff at the online school the student attends. Other face-to-face learning opportunities are run by outside organizations and may take the form of field trips, volunteering at a local nonprofit, or participating in an internship.

The state can leverage its convening power to address the lack of consistency in the way charter schools report their financial information in their AFRs. More detailed reporting would be helpful to stakeholders trying to understand the sources and uses of public revenue. Publicly recognizing charter schools that are leaders in this area may help to encourage others to take note of and adopt similar best practices. Statewide convenings of both school finance professionals and public accountants to share best practices would also encourage additional transparency and consistency. Establishing an annual award for best financial reporting would encourage charter schools to improve their practices.

Financial Transparency (part III): *District-level spending is insufficient - make school level spending transparent.*

The excel data files for researchers created and hosted by the Department of Education since 2018 are comprehensive, well organized, and lower the cost of conducting research studies like this one. The finance data included in these reports would be more valuable if every school participated. This financial data source was not used in our study because the data only covered two of the five years examined and because considerable reporting gaps exist across charter schools. As the state moves into compliance with new ESSA reporting provisions requiring school level spending for all district and charter schools, this data set is expected to be fully completed. This data will be valuable for assessing the impact funding policy changes have on equity within the charter sector specifically, and between all public schools more generally. Notably, the Office of Finance's 135 Day reports could serve as the basis for charter school revenue reports.

Fund Charter School Students Equitably: *Allocate all charter school funding through the existing weighted student formula.*

The CV measures funding inequality across charters schools. South Carolina's CV for school districts is 14.7 percent for school districts, according to the 2019 edition of Quality Counts School Finance published by Education Week. The same report assigned the South Carolina school finance system a C minus. The CV for state authorized brick and mortar charter schools is 16.6 percent. This level of inequality is unacceptable because the state is responsible for funding the local and state share for this group of schools. The existing funding formula can be used to allocate all state and local operating dollars for charter schools and will effectively bring the CV down to close to zero and fund all charter students fairly.

One place to start expanding the use of the existing weighted student funding formula is to add a weighted category for students educated in a brick-and-mortar school. Virtual school students would not receive the extra weight. Currently, the funding differential is communicated in a proviso and then presented as a lump sum dollar amount in Appendix A-4 of the revenue per pupil report for FY2019-20. The weighted student approach would then treat all students in district and charter schools the same. It would also make transparent South Carolina's intention to fund students taught virtually at lower amounts than students taught in classrooms, which may be a valuable distinction to draw as the state continues to develop plans to educate students while keeping them safe from COVID-19.

Fund Charter School Students Equitably (part II): *Allocate all funding through the weighted student formula and use the success-spending quadrants to inform schools of where they stand and pair those needing improvement with high performers.*

Based on where each school falls on the success-spending quadrants, some are high performing others are low performing, some are high spend, others are low spend. Provide schools with information about where they are on the grid and partner them with schools that they learn how to effectively invest new funds or implement budget cuts without hurting student performance.

Charter schools in the low performing zone with a spending index below 0.75 should expect to receive additional funding if some of the policy recommendations presented in this next section are adopted. They should be paired with schools high performing schools with spending indexes near 1.0 to develop resource allocation strategies that result in more than 70 percent of students meeting the state standards.

Charter schools in the low performing zone with a spending index above 1.25 should expect to lose funding. They should be paired with low spend, high performing schools to develop new resource allocation plans designed to result in more than 70 percent of students meeting the state standards, while they also implement strategic budget cuts to bring their spending in line with the state average.

Strive to Make South Carolina a National Leader in Addressing Poor Student Outcomes: *Poor Student outcomes in virtual schools is a national problem and South Carolina can strengthen both funding formulas and accountability standards for virtual charter schools, and thus become a leader in the country*

In a recent study of charter school students in South Carolina, CREDO found similar learning gains in reading and weaker gains in math compared with students attending a district operated school (Center for Research on Education Outcomes, 2019). Student learning gains in online charter schools are much weaker in both reading and math compared with both students attending district operated schools and brick-and-mortar charter schools. The online gap learning is equivalent to 35 lost days of reading instruction and 118 lost days of mathematics instruction, according to calculations by the authors. The CREDO study authors suggested that schools posting weaker academic gains represent an opportunity to strengthen authorizer practice and this study adds addition support for that recommendation

In 2017, Matt Barnum wrote an article summarizing what is known about online charter schools, access and student outcomes. Barnum's nuanced coverage finds that it is hard to estimate online schools' impact on student learning, that a definitive methodology or study has yet to be designed or conducted, there are too few studies to learn from, online charters may expand access, the profit incentives create risks, and no study to date has found positive or even neutral online attendance effects. The few that have studied and written the most about online charter schools appear to agree that states need re-think the way online charter schools are authorized and governed in order to improve on these dismal results and help the public better understand the unique needs of students educated online.

Implement Performance Funding to Support Personalized Learning: *Follow New Hampshire's approach and fund virtual charter schools on completion of student assignments.*

"The traditional, seat-time based school schedule is reinforced by current student funding models. The dominant model, which is based on average daily attendance, is not flexible enough to enable the exponential number of variations—including accelerated or expanded time for learning activities—required to implement true personalized learning. As students mix both online and offline learning, they might take courses or components of courses from a variety of providers. New student funding models, no longer based on rigid attendance counts, must evolve to support this integrated set of blended and fully online course and school providers. Otherwise, virtual schools will struggle, as individual schools' ability to personalize is constrained by a funding stream that cannot support an array of multiple providers. Without mechanisms that enable funds to easily flow across district, state, and national lines at more discrete levels, the field as a whole will be stunted by a lack of scale and market-based incentives (Tucker, 2007)."

It makes sense to start down the performance funding pathway with virtual charter schools because students in those schools have the most room for improvement. New Hampshire is the north star for performance funding of virtual education. Only New Hampshire's statewide online charter school links performance funding directly to its base funding formula. Student performance at New Hampshire's virtual charter school generates revenue equivalent to about 55 percent of what it would receive under an enrollment-based funding formula. Yet the school is fiscally healthy, and its revenues will rise as student performance improves. The school can offer students personalized learning opportunities through courses, projects, internships, and travel. The state will need to provide resources to collect and validate performance data and convert that information into funding amounts to allocate to virtual charter schools. This was a hurdle Florida's system was unable to overcome and a primary reason why the state abandoned its performance funding effort.

Fund Charter School Students Equitably (part III): After all funds are going through the funding formula (weighted or performance), re-evaluate weighted and add on services.

Virtual charter schools receive \$1,700 less per student than their brick-and-mortar charter school counterparts. At the school level, this decision makes sense considering the savings virtual schools generate with respect to building operations and maintenance. At the student level, it makes much less sense. And considering performance gaps across virtual and brick-and-mortar charter school students, the policy needs reconsidering. Similarly, the relative performance level of high poverty schools suggests that additional funding – equitably allocated and well spent – should increase the number of high poverty schools exceeding the state's 70 percent success standard.

STATE POLICY APPENDIX

TEXAS HOUSE BILL 3

SEC. 48. 110. COLLEGE, CAREER, OR MILITARY READINESS OUTCOMES BONUS.

(a) The purpose of this section is to further the goal set under the state's master plan for higher education developed under Section 61.051 for at least 60 percent of all adults aged 25 to 34 in this state to achieve a postsecondary degree or workforce credential by 2030.

(b) For purposes of the outcomes bonus under this section, the commissioner shall determine the threshold percentage as provided by Subsection (g) for college, career, or military readiness as described by Subsection (f) for each of the following cohorts:

- (1) annual graduates who are educationally disadvantaged;
- 2) annual graduates who are not educationally disadvantaged; and
- (3) annual graduates who are enrolled in a special education program under Subchapter A, Chapter 29, regardless of whether the annual graduates are educationally disadvantaged.

(c) Each year, the commissioner shall determine for each school district the minimum number of annual graduates in each cohort described by Subsection (b) who would have to demonstrate college, career, or military readiness as described by Subsection (f) in order for the district to achieve a percentage of college, career, or military readiness for that cohort equal to the threshold percentage established for that cohort under Subsection (b).

(d) For each annual graduate in a cohort described by Subsection (b) who demonstrates college, career, or military readiness as described by Subsection (f) in excess of the minimum number of students determined for the applicable district cohort under Subsection (c), a school district is entitled to an annual outcomes bonus of:

- (1) if the annual graduate is educationally disadvantaged, \$5,000;
- (2) if the annual graduate is not educationally disadvantaged, \$3,000; and
- (3) if the annual graduate is enrolled in a special education program under Subchapter A, Chapter 29, \$2,000, regardless of whether the annual graduate is educationally disadvantaged.

(e) A school district is entitled to an outcomes bonus under each subdivision of Subsection (d) for which an annual graduate qualifies.

(f) For purposes of this section, an annual graduate demonstrates:

(1) college readiness if the annual graduate:

(A) achieves college readiness standards used for accountability purposes under Chapter 39 on the ACT, the SAT, or an assessment instrument designated by the Texas Higher Education Coordinating Board under Section 51.334; and

(B) during a time period established by commissioner rule, enrolls at a postsecondary educational institution;

(2) career readiness if the annual graduate:

(A) achieves college readiness standards used for accountability purposes under Chapter 39 on the ACT, the SAT, or an assessment instrument designated by the Texas Higher Education Coordinating Board under Section 51.334; and

(B) during a time period established by commissioner rule, earns an industry-accepted certificate; and

(3) military readiness if the annual graduate:

(A) achieves a passing score set by the applicable military branch on the Armed Services Vocational Aptitude Battery; and

(B) during a time period established by commissioner rule, enlists in the armed forces of the United States.

(g) The commissioner shall establish the threshold percentages under Subsection (b) using the 25th percentile of statewide college, career, or military readiness as described by Subsection (f) for the applicable cohort of annual graduates during the 2016-2017 school year.

(h) On application by a school district, the commissioner may allow annual graduates from the district to satisfy the requirement for demonstrating career readiness under Subsection (f)(2)(B) by successfully completing a coherent sequence of courses required to obtain an industry-accepted certificate. The district must demonstrate in the application that the district is unable to provide sufficient courses or programs to enable students enrolled at the district to earn an industry-accepted certificate within the time period established by the commissioner under Subsection (f)(2)(B). The commissioner by rule shall provide the criteria required for an application under this subsection.

(i) At least 55 percent of the funds allocated under this section must be used in grades 8 through 12 to improve college, career, and military readiness outcomes as described by Subsection (f).

ARIZONA HOUSE BILL 2749

SEC. 25. RESULTS-BASED FUNDING; ALLOCATION FORMULA; FISCAL YEAR 2019-2020

Notwithstanding section 15-249.08, subsection B, paragraph 2, Arizona Revised Statutes, for fiscal year 2019-2020, the department of education shall distribute monies from the Results-Based Funding fund established by section 15-249.08, Arizona Revised Statutes, as follows:

1. Each school operated by a school district or charter holder shall receive \$225 per student count from the fund if both of the following apply:

(a) At the time the test prescribed in subdivision (b) of this paragraph was administered, fewer than sixty percent of the pupils who were enrolled in the school met the eligibility requirements established under the national school lunch and child nutrition acts (42 United States Code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision for which free and reduced-price lunch data is not available.

(b) In results achieved during the spring of 2018, the school performed in the top thirteen percent of all schools statewide as demonstrated by the average percentage of pupils who obtained a passing score on the mathematics portions of the statewide assessment and the average percentage of pupils who obtained a passing score on the language arts portions of the statewide assessment.

2. Each school operated by a school district or charter holder shall receive \$400 per student count from the fund if both of the following apply:

(a) At the time the test prescribed in subdivision (b) of this paragraph was administered, sixty percent or more of the pupils who were enrolled in the school met the eligibility requirements established under the national school lunch and child nutrition acts (42 United States Code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision for which free and reduced-price lunch data is not available.

(b) In results achieved during the spring of 2018, the school performed in the top thirteen percent of schools pursuant to subdivision (a) of this paragraph, as demonstrated by the average percentage of those pupils who obtained a passing score on the mathematics portions of the

statewide assessment and the average percentage of pupils who obtained a passing score on the language arts portions of the statewide assessment.

3. Each school operated by a school district or charter holder shall receive \$225 per student count from the fund if both of the following apply:

(a) At the time the test prescribed in subdivision (b) of this paragraph was administered, sixty percent or more of the pupils who were enrolled in the school met the eligibility requirements established under the national school lunch and child nutrition acts (42 United States Code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision for which free and reduced-price lunch data is not available.

(b) In results achieved during the spring of 2018, the school performed in the top twenty-seven percent but not in the top thirteen percent of schools pursuant to subdivision (a) of this paragraph, as demonstrated by the average percentage of those pupils who obtained a passing score on the mathematics portions of the statewide assessment and the average percentage of pupils who obtained a passing score on the language arts portions of the statewide assessment.

4. Each alternative high school shall receive \$400 per student count from the fund if in the results achieved during testing conducted in the spring of 2018 the school performed in the top twenty-seven percent of schools identified pursuant to paragraph 3, subdivision (a) of this section, as demonstrated by the average percentage of those pupils who obtained a passing score on the mathematics portions of the statewide assessment and the average percentage of pupils who obtained a passing score on the language arts portions of the statewide assessment. An alternative high school is eligible for funding under this paragraph only if it reports the average percentage of pupils who obtained a passing score on both the mathematics portions of the statewide assessment and the language arts portions of the statewide assessment during testing conducted in the spring of 2018.

ARIZONA SENATE BILL 1530

15-249.08. RESULTS-BASED FUNDING FUND; DISTRIBUTIONS; REQUIREMENTS

A. The results-based funding fund is established consisting of legislative appropriations. The department of education shall administer the fund. Monies in the fund are continuously appropriated.

B. The department of education shall distribute monies from the results-based funding fund to school districts and charter schools as follows:

1. Beginning in Fiscal Year 2017-2018:

(a) each school operated by a school district or charter holder shall receive two hundred twenty-five dollars from the fund per student count if the school meets both of the following criteria:

(i) at the time the test prescribed in item (ii) of this subdivision is administered, fewer than sixty percent of the pupils who are enrolled in the school meet the eligibility requirements established under the national school lunch and child nutrition acts (42 united states code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision for which free and reduced-price lunch data is not available.

(ii) in results achieved during the spring of 2016, the school performed in the top ten percent of all schools statewide as demonstrated by the average percentage of pupils statewide who obtained a passing score on the mathematics and language arts portions of the statewide assessment.

(b) Each school operated by a school district or charter holder shall receive four hundred dollars from the fund per student count if the school meets both of the following criteria:

(i) at the time that the test prescribed in item (ii) of this subdivision is administered, sixty percent or more of the pupils who are enrolled in the school meet the eligibility requirements established under the national school lunch and child nutrition acts (42 united states code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision for which free and reduced-price lunch data is not available.

(ii) in results achieved during the spring of 2016, the school performed in the top ten percent of schools pursuant to item (i) of this subdivision, as demonstrated by the average percentage of those pupils statewide who obtained a passing score on the mathematics and language arts portions of the statewide assessment.

(c) each alternative high school that is subject to a specialized rating system and that in 2014 was assigned the equivalent of a letter grade designation pursuant to section 15-241 shall receive four hundred dollars from the fund per student count.

2. Beginning in fiscal year 2018-2019:

(a) each school operated by a school district or charter holder shall receive two hundred twenty-five dollars from the fund per student count if the school has a letter grade designation of a pursuant to section 15-241 from the prior fiscal year and fewer than sixty percent of the pupils who are enrolled in the school meet the eligibility requirements established under the national school lunch and child nutrition acts (42 united states code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision in which free and reduced-price lunch data is not available.

(b) each school operated by a school district or charter holder shall receive four hundred dollars from the fund per student count if the school has a letter grade designation of a pursuant to section 15-241 from the prior fiscal year and sixty percent or more of the pupils who are enrolled in the school meet the eligibility requirements established under the national school lunch and child nutrition acts (42 united states code sections 1751 through 1785) for free or reduced-price lunches, or an equivalent measure recognized for participating in the federal free and reduced-price lunch program and other school programs dependent on a poverty measure, including the community eligibility provision in which free and reduced-price lunch data is not available.

C. Any monies received from the results-based funding fund by a school district or charter holder shall be separately accounted for in the school district's or charter holder's annual financial report. Except as provided in this subsection, the monies shall be allocated directly to enhance, expand or replicate the school site that generated the results-based funding and shall not supplant monies budgeted or received from any other source that are generally provided to that school. The majority of the monies received from the fund by a school district or charter holder shall be used for teacher salaries, to hire teachers and to provide for teacher professional development. A portion of the monies received from the fund by a school district or charter holder may be used for the expansion and replication of that school site as a quality school model. The monies shall be used to sustain and replicate results, to serve more students on a waiting list at a school with a letter grade designation of a or b and to increase salaries for teachers, other classroom staff and school leaders by closing the achievement gap in high-poverty schools. For the purposes of this subsection, "replication" means:

1. Adding seats and serving more students at the awarded school site.
2. Using resources at a different location to improve that school or to sustain or accelerate academic growth.
3. Mentoring other schools and school leaders to replicate the model or to provide other types of school improvement supports.

4. Physically expanding at another location.

D. Schools receiving funding pursuant to subsection c, paragraph 2, 3 or 4 of this section must show steady improvement after three years to remain eligible for funding.

FLORIDA STATUE 1002.37

2013

(3). Funding for the Florida Virtual School shall be provided as follows:

(a)1. For a student in grades 9 through 12, a “full-time equivalent student” is one student who has successfully completed six full-credit courses that count toward the minimum number of credits required for high school graduation. A student who completes fewer than six full-credit courses is a fraction of a full-time equivalent student. Half-credit course completions shall be included in determining a full-time equivalent student.

2. For a student in kindergarten through grade 8, a “full-time equivalent student” is one student who has successfully completed six courses or the prescribed level of content that counts toward promotion to the next grade. A student who completes fewer than six courses or the prescribed level of content shall be a fraction of a full-time equivalent student.

2019

(3). Funding for the Florida Virtual School shall be provided as follows:

(a)1. The calculation of “full-time equivalent student” shall be as prescribed in s. [1011.61\(1\)\(c\)1.b.\(V\)](#) and is subject to s. [1011.61\(4\)](#).

2. For a student in a home education program, funding shall be provided in accordance with this subsection upon course completion if the parent verifies, upon enrollment for each course, that the student is registered with the school district as a home education student pursuant to s. [1002.41\(1\)\(a\)](#).

(b) Full-time equivalent student credit completed through the Florida Virtual School, including credits completed during the summer, shall be reported to the Department of Education in the manner prescribed by the department and shall be funded through the Florida Education Finance Program.

2019 FLORIDA STATUTE 1011.61

Definitions.—Notwithstanding the provisions of s. [1000.21](#), the following terms are defined as follows for the purposes of the Florida Education Finance Program:

(1) A “full-time equivalent student” in each program of the district is defined in terms of full-time students and part-time students as follows:

(a) A “full-time student” is one student on the membership roll of one school program or a combination of school programs listed in s. [1011.62\(1\)\(c\)](#) for the school year or the equivalent for:

1. Instruction in a standard school, comprising not less than 900 net hours for a student in or at the grade level of 4 through 12, or not less than 720 net hours for a student in or at the grade level of kindergarten through grade 3 or in an authorized prekindergarten exceptional program; or

2. Instruction comprising the appropriate number of net hours set forth in subparagraph 1. for students who, within the past year, have moved with their parents for the purpose of engaging in the farm labor or fish industries, if a plan furnishing such an extended school day or week, or a combination thereof, has been approved by the commissioner. Such plan may be approved to accommodate the needs of migrant students only or may serve all students in schools having a high percentage of migrant students. The plan described in this subparagraph is optional for any school district and is not mandated by the state.

2019 MINNESOTA STATUTES

124D.095 ONLINE LEARNING OPTION

Subd. 4. Online learning parameters.

(a) An online learning student must receive academic credit for completing the requirements of an online learning course or program. Secondary credits granted to an online learning student count toward the graduation and credit requirements of the enrolling district. The enrolling district must apply the same graduation requirements to all students, including online learning students, and must continue to provide nonacademic services to online learning students. If a student completes an online learning course or program that meets or exceeds a graduation standard or the grade progression requirement at the enrolling district, that standard or requirement is met.

Subd. 8. Financial arrangements.

(a) For a student enrolled in an online learning course, the department must calculate average daily membership and make payments according to this subdivision.

(b) The initial online learning average daily membership equals $1/12$ for each semester course or a proportionate amount for courses of different lengths. The adjusted online learning average daily membership equals the initial online learning average daily membership times .88.

(c) No online learning average daily membership shall be generated if: (1) the student does not complete the online learning course, or (2) the student is enrolled in online learning provided by the enrolling district.

TEXAS EDUCATION CODE

CHAPTER 70. TECHNOLOGY-BASED INSTRUCTION

SUBCHAPTER AA. COMMISSIONER'S RULES CONCERNING THE TEXAS VIRTUAL SCHOOL NETWORK (TXVSN)

§70.1001. DEFINITIONS.

The following terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

(1) **Electronic course**--An educational course in which instruction and content are delivered primarily over the Internet, a student and teacher are in different locations for a majority of the student's instructional period, most instructional activities take place in an online environment, the online instructional activities are integral to the academic program, extensive communication between a student and a teacher and among students is emphasized, and a student is not required to be located on the physical premises of a school district or charter school. An electronic course is the equivalent of what would typically be taught in one semester. For example: English IA is treated as a single electronic course and English IB is treated as a single electronic course.

(2) **Successful course completion**--The term that applies when a student taking a high school course has demonstrated academic proficiency of the content for a high school course and has earned a minimum passing grade of 70% or above on a 100-point scale, as assigned by the properly credentialed online teacher(s), sufficient to earn credit for the course.

(3) **Successful program completion**--The term that applies when a student in Grades 3-8 has demonstrated academic proficiency and has earned a minimum passing grade of 70% or above on a 100-point scale, as assigned by the properly credentialed online teacher(s) for the educational program, sufficient for promotion to the next grade level.

(4) Texas Virtual School Network (TxVSN)--A state-led initiative for online learning rather than a telecommunications or information services network. The TxVSN is comprised of two components, the statewide course catalog and the online school program. Authorized by the Texas Education Code, Chapter 30A, the TxVSN is a partnership network administered by the Texas Education Agency (TEA) in coordination with regional education service centers (ESCs), Texas public school districts and charter schools, institutions of higher education, and other eligible entities.

(5) TxVSN central operations--The regional education service center that carries out the day-to-day operations of the TxVSN, including the centralized student registration system, statewide course catalog listings, and other administrative and reporting functions.

(6) TxVSN online school--A Texas public school district or charter school that meets eligibility requirements and serves students who are enrolled full time in an approved TxVSN Online School program.

(7) TxVSN Online School (OLS) program--A full-time, virtual instructional program that is made available through an approved course provider and is designed to serve students in Grades 3-12 who are not physically present at school.

(8) TxVSN course provider--An entity that meets eligibility requirements and provides an electronic course through the TxVSN. Course providers include providers in the statewide course catalog and TxVSN online schools.

(9) TxVSN receiver district--A Texas public school district or charter school that has students enrolled in the school district or charter school who take one or more online courses through the TxVSN statewide course catalog.

(10) TxVSN statewide course catalog--A supplemental online high school instructional program available through approved course providers.

Statutory Authority: The provisions of this §70.1001 issued under the Texas Education Code, §30A.051(b).

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